Hospitality
PROPERTY FUND

2019

INTEGRATED **ANNUAL REPORT**

About this report

Forward-looking statement

Certain statements in this document may constitute 'forward-looking statements'. Such forward-looking statements reflect the Company's beliefs and expectations and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Hospitality and its subsidiaries to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. The Company undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. Past performance of the Company cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of this document. You are cautioned not to place any undue reliance on such forward-looking statements. No statement in this document is intended to be a profit forecast.

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Hospitality PROPERTY FUND

Using this report

The following icons are used within our report to reduce repetition and increase connectivity:

Further information available within this report

Further information available online: **www.hpf.co.za**

Reporting suite

Our integrated annual report ('IAR') has been prepared to provide our target audience with a holistic and transparent view of our business model and strategy. More detailed information is also contained in our supplementary reporting suite, accessible on
http://www.hpf.co.za/investors

Results presentations
A database of the presentation of our interim and year end results to analysts and investors, which can be accessed via
http://www.hpf.co.za/investor

Stock Exchange News Service ('SENS') of the JSE Limited
A database of all regulatory announcements published on the JSE Limited's SENS, which can be accessed via
http://www.hpf.co.za/investors

Curricula vitae of each of Hospitality's Board members can be accessed via
http://www.hpf.co.za/governance

Our **strategic objectives** are:

Sustain Optimise Grow

CONTENTS

Reporting philosophy and target audience

Integrated thinking is a key component of how we manage our business and develop our internal strategy and reporting practices.

At Hospitality, we define value as delivering sustainable returns to our shareholders, through the payment of dividends and capital appreciation, while positively contributing to our employees, business partners and the economy.

Hospitality uses distribution per share as the relevant performance measure for trading statement purposes in terms of JSE Listings Requirements.

Our strategy has been developed to ensure that we manage the resources and relationships needed to create value over time. A review of the interaction with our key resources and the various relationships held, can be found on page 8.

The target audience for this integrated annual report can be defined as all current and future shareholders who have an interest in our ability to create and sustain value, including the investor community, analysts, employees, business partners, funders and regulators. In this report we present our target audience with an integrated and transparent overview of our strategy, business model and performance. We present a compelling investment case and value proposition and focus on concise business reporting. Hospitality has adopted King IV™* and has applied such governance practices that have resulted in the achievement of the outcomes of King IV, being an ethical culture, good performance, effective control and legitimacy.

Reporting principle and frameworks

The financial and other information have been prepared in accordance with regulatory requirements, namely International Financial Reporting Standards ('IFRS'), the Companies Act, the JSE Listings Requirements, King IV, as well as the voluntary guidelines of the Integrated Reporting Council's Reporting Framework as applicable. We believe that these frameworks add objectivity to the report and, as far as possible, we have demonstrated the connectivity and integration of these frameworks.

Scope and boundary

This report covers the material risks and opportunities that specifically relate to the Fund. We have considered all of Hospitality's direct and indirect risks and opportunities but have excluded the risks and opportunities that relate to the underlying hotel operations, unless these risks and opportunities are believed to be material to Hospitality. We have explained our process for determining materiality on page 22.

Hospitality believes that a risk or opportunity is material if it substantially affects the Company's ability to create and sustain value. In addition, we have included material subsequent events that occurred post-year end.

This report now covers Hospitality's performance for the year ended 31 March 2019, compared to the prior year ended 31 March 2018.

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Glossary

Our glossary on page 111 is included as a reference to terms used throughout this report.

Assurance

The process of integrated reporting continues to evolve and at this stage, apart from obtaining external assurance as indicated below, Hospitality has not sought external verification of the non-financial information provided in this report.

Assured element	Assurance provided	Assurance provider
Annual financial statements	Audit	PricewaterhouseCoopers Inc.
B-BBEE level 1 group rating	Verification	Empowerdex
Property valuations	Valuation	Excellerate Real Estate Services Proprietary Limited t/a JHI
Internal audit	Internal controls	GRIPP Advisory Proprietary Limited

Board responsibility and approval statement

The Board, assisted by its audit and risk committee and other sub-committees, is ultimately responsible for overseeing the integrity of the IAR. The audit and risk committee was mandated to oversee the reporting process. The Board has applied its collective mind to the preparation and presentation of the IAR. The directors confirm that they have collectively reviewed the output of the reporting process and the content of the IAR. The directors believe that this IAR is transparent and addresses the material issues facing Hospitality. The report, therefore, is considered a fair presentation of the governance, strategy, performance and prospects of the Group in accordance with the international framework.

We welcome any feedback on the report, which may be forwarded to **info@hpf.co.za**.

John Copelyn
Chairman

Robert Nicolella
Chief Executive Officer

4

Integrated governance

5

Financial reporting

6

Notice of annual general meeting

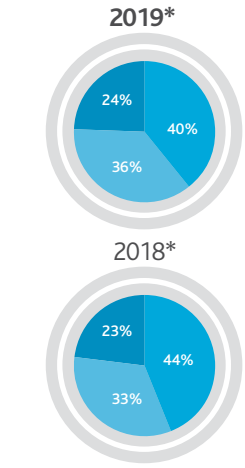
Geographic locations and class of hotels in South Africa

Revenue for the year ended 31 March 2019 at
R828 million
(2018: R867 million)

Average lease expiry of
14.5 years
(2018: 14.9 years)

Loan to value ('LTV') for the year ended 31 March 2019 at **16.3%**
(2018: 15.3%)

Rental income by geographical spread



** Includes SUN1 geographically.*

Where we operate

9 properties **Western Cape** portfolio

- Westin Cape Town
- Radisson Blu Waterfront
- Protea Victoria Junction
- Arabella Hotel and Spa
- StayEasy Century City
- Southern Sun Newlands
- Sunsquare Cape Town
- Southern Sun Cullinan
- Southern Sun Waterfront

13 properties **Gauteng** portfolio

- Birchwood Hotel and Conference Centre
- Radisson Blu Gautrain
- Kopanong Hotel and Conference Centre
- Mount Grace Country House and Spa
- Crowne Plaza Rosebank
- Holiday Inn Sandton
- Garden Court Milpark
- Southern Sun Katherine Street
- Garden Court Morningside
- Garden Court Eastgate
- Garden Court Hatfield
- StayEasy Eastgate
- Garden Court OR Tambo

12 properties **rest of South Africa**

- Garden Court South Beach
- Garden Court Polokwane
- Southern Sun Bloemfontein
- Garden Court Kimberley
- StayEasy Rustenburg
- Protea Edward
- Protea Marine
- Protea Hazyview
- Champagne Sports Resorts
- Garden Court Kings Beach
- Garden Court Umhlanga
- StayEasy Pietermaritzburg

19 **SUN1 hotels** in our portfolio

- SUN1 Alberton
- SUN1 Benoni
- SUN1 Berea
- SUN1 Bloemfontein
- SUN1 Cape Town
- SUN1 Edenvale
- SUN1 Kimberley
- SUN1 Midrand
- SUN1 Milnerton
- SUN1 Nelspruit
- SUN1 OR Tambo
- SUN1 Parow
- SUN1 Port Elizabeth
- SUN1 Pretoria
- SUN1 Richards Bay
- SUN1 Southgate
- SUN1 Vereeniging
- SUN1 Witbank
- SUN1 Wynberg

Luxury

THE WESTIN CAPE TOWN

AUTOGRAPH COLLECTION® HOTELS

Radisson BLU

Upscale

Southern Sun HOTELS

Holiday Inn

CROWNE PLAZA

Radisson BLU

CHAMPAGNE SPORTS RESORT

Midscale

SUN SQUARE

Garden Court

stayeasy

PROTEA HOTELS. MARRIOTT

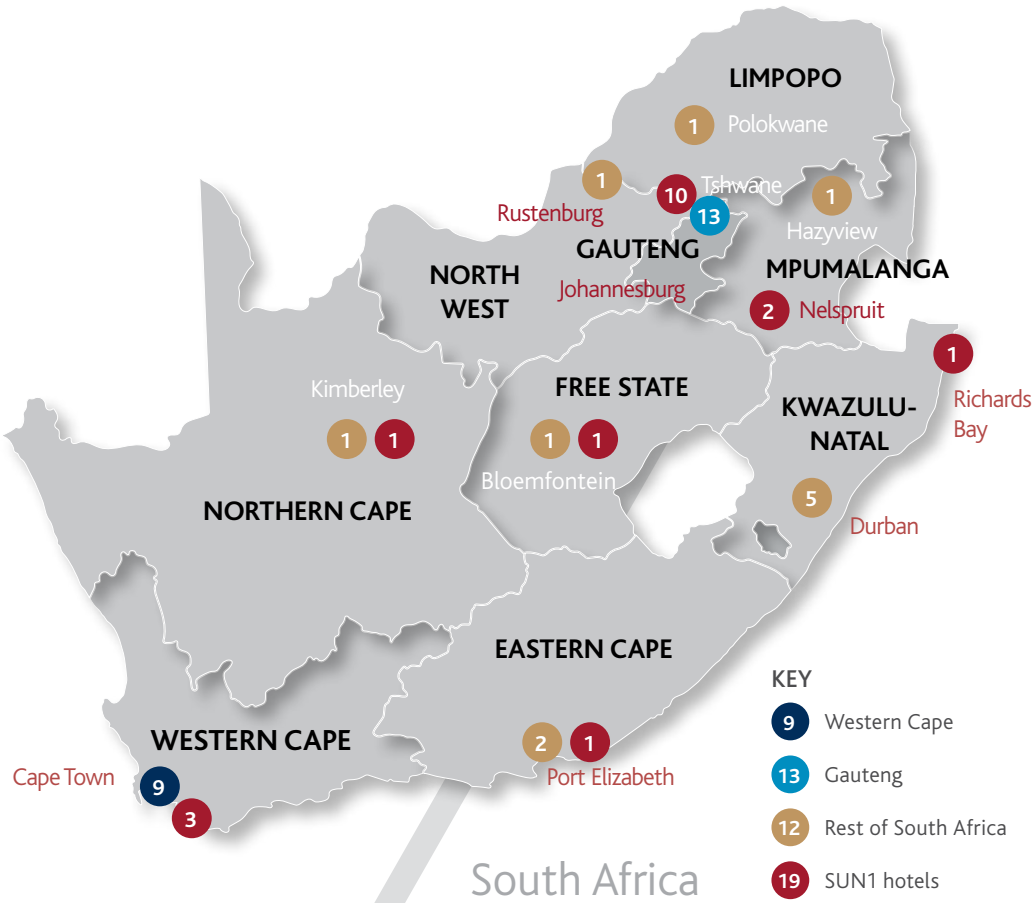
BIRCHWOOD

arla | KOPANONG HOTEL & CONFERENCE CENTRE

Economy

SUN 1

Hospitality owns 53 properties and receives rental income from its tenants. The leases for all our properties have a fixed and variable component.



South Africa

Our top 10 properties by fair market value as at 31 March 2019

1

Westin Cape Town
Convention Square, Cape Town, Western Cape

Luxury
483 rooms
Valuation: R1 712 million

Southern Sun Waterfront
Waterfront, Cape Town, Western Cape

Upscale
537 rooms
Valuation: R1 032 million

2

3

Southern Sun Cullinan
Waterfront, Cape Town, Western Cape

Upscale
394 rooms
Valuation: R960 million

Birchwood Executive Hotel and Conference Centre
Boksburg, Gauteng

Midscale
665 rooms
Valuation: R847 million

4

5

Radisson Blu Gautrain
Sandton, Gauteng

Upscale
220 rooms
Valuation: R582 million

6

Garden Court South Beach
South Beach, Durban

Midscale
414 rooms
Valuation: R542 million

Radisson Blu Waterfront
Waterfront, Cape Town, Western Cape

Luxury
177 rooms
Valuation: R497 million

7

8

Garden Court OR Tambo
Kempton Park, Johannesburg, Gauteng

Midscale
253 rooms
Valuation: R392 million

Holiday Inn Sandton
Sandton, Gauteng

Upscale
301 rooms
Valuation: R347 million

9

10

Crowne Plaza Rosebank
Rosebank, Johannesburg, Gauteng

Upscale
318 rooms
Valuation: R311 million

For a detailed list of the properties that make up our portfolio, please refer to page 92.

Our investment case

Why invest in Hospitality?

Unique REIT

Hospitality is a specialised REIT listed on the JSE, investing in the hospitality industry.

With an uncomplicated operating structure and a focus on sound corporate governance, we provide investors with exposure to rental income streams from the hospitality sector.

A diverse portfolio

Our well-diversified portfolio of **53 properties across multiple geographic locations and classes of hotels** ensures we are able to service a wide range of guests with more than 9 000 rooms in South Africa.

Financial strength

The Fund's low gearing provides us with headroom to grow our portfolio by investing to improve the quality of our existing properties and acquiring well-located, value-enhancing hotels in major urban centres with strong brands and diverse source markets.

Delivery

With distributable earnings of 105.39 cents per share, and a net asset value of R17.77 per share, **we continue to deliver tangible returns to our investors**, even in a challenging economic climate.

Our group structure

^ *THL's interest in Hospitality is held by its wholly owned subsidiary Tsogo Sun Investments Proprietary Limited.*

* *Wholly owned by Hospitality Property Fund Limited.*

\# *Subsequent to year end, Hospitality underwent an internal restructure, which resulted in all the properties and/or assets owned by Fezisource, The Cullinan and Merway, being transferred to HPF Properties. The restructure simplifies Hospitality's structure further and allows for savings on audit, administrative and secretarial fees.*

Southern Sun Cullinan

Our business model

1 Resources and relationships – the six capitals

Financial

We invest the financial capital received from our equity investors and debt funders.

- 16% LTV ratio (2018: 15%)
- Rental income of R828 million (2018: R876 million)
- R212 million invested in capital expenditure (2018: R148 million)
- R1.9 billion in debt (57% hedged) (2018: R1.9 billion)

Social and relationship

The strength of our relationships is key to our business, given the unique nature of our operations. Our symbiotic relationships with tenants and their hotel management companies create mutual benefit.

- Tenant retention rate – 100%
- Strong, mutually beneficial relationship with Tsogo Sun, the majority shareholder of the Fund

Manufactured

Our diverse and carefully managed property portfolio enables us to generate income.

- 53 hotel and resort properties across multiple grades (2018: 53) and geographic locations, valued at R12.0 billion (2018: R12.6 billion)
- Focused on metropolitan cities for scale

Natural

Although we do place reliance on water and electricity provided by municipalities to our operations and strive to be resource efficient and self-sufficient where possible.

- Installation of desalination plant and/or filtration plants at several of our Cape Town hotels
- Water and energy-saving initiatives implemented in all our hotels

Intellectual

The depth of our experience in the hotel industry coupled with the strength of our hotel brands are critical to our ability to grow the business.

- Average experience of executive and senior management team in the hotel industry is 20 years
- 15 international and domestic brands (2018: 15)
- Ongoing investment in internal systems and processes to build data analytic capability

Human

To deliver on our strategy, we have a highly specialised and experienced team.

- 19 employees

2 Core business activities and processes

The hotel portfolio of well-located and appropriately branded hotels caters to a wide range of domestic and international target markets including business travel, leisure and conferencing clients.

Invest → Acquire properties in key locations with good visibility, accessibility and proximity to major hubs.

Capitalise → Maintain properties to appropriate brand standards and expand where opportunities meet our investment criteria.

Lease → Lease properties to tenants associated with hotel brands across the classes of hotels.

Enhance → Enhance relationship with tenants and their hotel management companies to maximise rental income.

Review → Strategic disposal of non-core assets.

Support processes

Strategy implementation
↓
Capital allocation
↓
Product relevance
↓
Acquisitions and development
↓
Financial reporting and taxation
↓
Risk management
↓
Regulatory compliance
↓
Procurement management

3

Outputs – products and services delivered

Attractive, well-located, maintained and resilient properties

Capital funding for hotel maintenance and improvements

Hotel management skills and advice to enhance hotel performance

REIT investment product

4

Outcomes

Our purpose is to invest in quality properties in the South African hospitality industry.

Our definition of value – to deliver sustainable returns to our shareholders, through distributions and capital appreciation, while positively contributing to our employees, business partners and the economy.

We do this through our strategic objectives of sustaining, optimising and growing value through our strategic objectives and initiatives:

Sustain

Financial strength and durability

Maintain an appropriate capital structure and distribution policy to ensure the business survives through the economic cycles.

Product relevance

Own and maintain a variety of quality properties that are relevant in their markets.

Optimise

Property portfolio management

Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships.

Business intelligence

Build and refine internal processes and systems to support portfolio management and decision-making.

Grow

Organic growth

Grow our portfolio through organic means.

Acquisitions

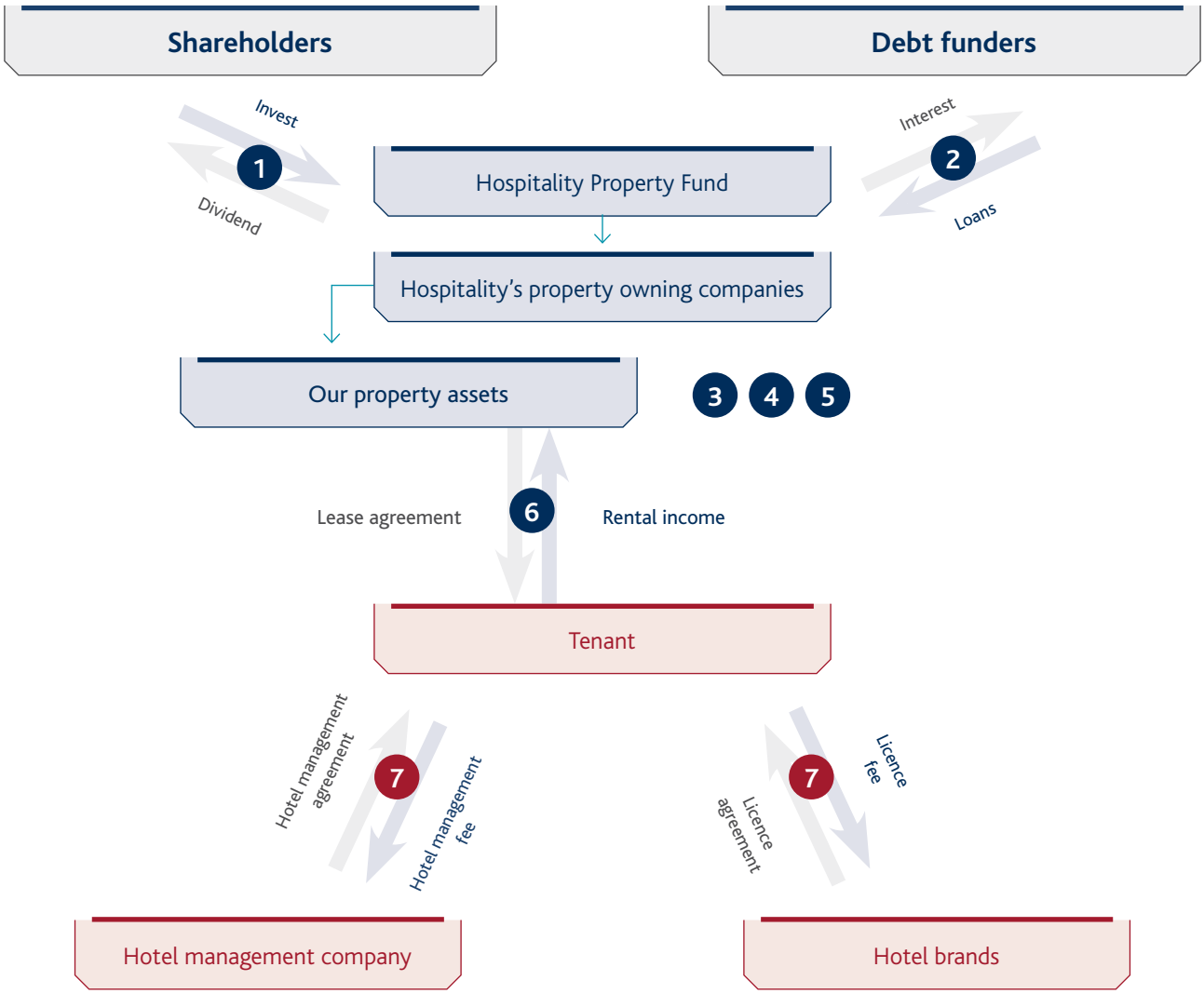
Continue to seek value-enhancing acquisitions, both through platform transactions and single asset acquisitions, that are well diversified both geographically and across brand segments.

What we do

Like all REITs, we earn our income through rentals received from our tenants. The hospitality industry is characterised by rental income that is subject to seasonal variability and a high level of capital expenditure. The potential upside allows Hospitality to leverage the assets for higher potential returns.

Our portfolio caters to a wide-ranging domestic and international market and accommodates various segments including corporate, government, leisure, group conferencing and event business. Our properties are well diversified in terms of geographic location and class of hotel, thus mitigating the inherent risks associated within the cyclical nature of the hospitality industry.

As the property owner, we have a symbiotic relationship with our tenants and the hotel management companies, who are typically the representatives of the brands in our portfolio. Our focus is the asset management of our properties, a long-term strategy in acquiring, disposing of and investing in a relevant portfolio to protect and grow shareholder returns. This strategy is delivered through responsible capital expenditure, an evaluation of acquisition opportunities as well as the optimal source of funding for these investments. Our strategy is to have dynamic and symbiotic relationships with the hotel management companies who focus on managing the hotel operations to maximise the income-generating capability of each hotel.



What we do

1

We raise equity/capital from shareholders through the issue of Hospitality shares.

We pay dividends to our shareholders, complying with the JSE regulatory requirements for a REIT while taking cognisance of prevailing economic conditions and our cash requirements to maintain and improve the portfolio and manage debt levels.

2

We source funding to invest in organic and acquisitive growth opportunities, using debt and/or equity. We have restructured our debt portfolio, including our medium-term note programme, normal bank debt and a revolving credit facility, to diversify between lenders, simplify the security structure and reduce the average cost of net debt.

3

We maintain and improve our properties through regular and responsible capital investments. Feasibility studies are conducted to analyse the return potential under prevailing trading conditions. Board approval is required for all capital expenditure projects and once approved, all expansion and major refurbishment are outsourced to third-party development consultants.

4

We measure the consumption of electricity and water, review municipal rates and water-saving initiatives are encouraged and supported through capital replacement where appropriate.

5

We evaluate acquisition opportunities to deliver on our objective to sustainably grow our assets under management.

We review and dispose of certain properties that do not match our investment portfolio in order to enhance the quality of our property portfolio. The proceeds of sales are applied to the reduction of debt or other growth opportunities.

6

We receive rental income from our tenants. The leases for all our hotel properties are fixed and variable ('F&V') leases.

Typically, the fixed portion of the lease is 50% of the budgeted EBITDAR, escalating at CPI on a varying cycle eg two or three years. The varied portion is between 75% and 98% of actual EBITDAR less the fixed portion.

7

Our tenants have management and licence agreements with reputable hotel management companies. We engage regularly with our tenants and their hotel management companies. We monitor the performance of our properties through monthly and quarterly reports provided by each hotel management company. In addition, we conduct peer group benchmarking, statistical analysis and reviews of economic trends to optimise the performance of the properties.

REIT 101

Hospitality is a REIT in terms of the JSE Listings Requirements

Below is a summary of what a REIT is and how being a REIT benefits investors.

What governs a REIT?

REITs in South Africa are governed by the JSE Listings Requirements and the Income Tax Act, 1962 ('IT Act'). The IT Act allows for REITs to deduct dividends paid to shareholders for income tax purposes, as long as the dividends meet the definition of a 'qualifying distribution' in terms of section 25BB.

What are the REIT compliance requirements in accordance with the JSE Listings Requirements?

A REIT must:

- Own at least R300 million in property
- Keep its debt below 60% of its gross asset value
- Earn at least 75% of its revenue from rental revenue*
- Distribute at least 75% of its total distributable profits as a dividend to the holders of its listed securities
- Have a committee to monitor risk

In order to retain its REIT status, every REIT must, on an ongoing basis, meet the relevant REIT criteria prescribed by the JSE. Each member of the Board must sign an annual REIT compliance declaration confirming that the Company meets the relevant REIT criteria, which is submitted to the JSE.

What are the benefits of a REIT to investors?

- Shareholders of a REIT do not pay securities transfer tax ('STT') on buying or selling of REIT shares
- South African investors will receive gross dividends from a South African REIT entity, without the deduction of withholding tax being levied against the dividend. Investors, will, however, have to pay tax on the dividends that they receive at their applicable marginal income tax rate when they include it in their taxable income
- Foreign shareholders of South African REITs will be levied a dividend withholding tax at 20% or the applicable double tax agreement rate could apply
- No capital gain tax liability arises in a REIT on the disposal of immovable property, a share in a REIT or a share in a controlled company

** Group revenue that is derived from the owning or leasing of immovable property which is let or sub-let to tenants plus dividends received from another REIT where the investment in that REIT is not consolidated in the Group accounts.*

Chairman and Chief Executive Officer's report

Robert Nicolella
Chief Executive Officer

John Copelyn
Chairman

- *Optimising our business through the management of our assets, including appropriate employment and allocation of capital*
- *Ensuring our assets remain relevant in a challenging environment*
- *R212 million invested in our portfolio during 2019*

Level 1

B-BBEE rating retained

Water resilience project

successfully completed

We remain focused on our strategic objectives to sustain, optimise and grow our business.

Dear stakeholders

Reflecting on Hospitality's reporting year, distributable earnings decreased by 8% to the prior year. The operating climate in South Africa remained challenging. A number of new competitor hotel rooms were introduced into the Western Cape, 'day zero' still keeping certain sectors of the market away, together with the depressed market, led to weaker trading conditions, compounded by economic and political uncertainty leading up to the national elections. Notwithstanding the conclusion of elections, hotel trading is likely to remain under pressure in the short term. Certain planned new competing hotels in the Western Cape have been shelved as the market conditions make these investments difficult to justify for smaller operators.

Delivering on our strategic objectives

We believe that we create value by delivering sustainable returns to our shareholders through distributions and capital appreciation, while positively contributing to our employees, business partners and the economy. To achieve this, we remained focused on achieving our strategic objectives – to sustain, optimise and grow our business.

The sustainability of our business depends on our ability to proactively identify opportunities and risks. We also remain focused on optimising the business through the management of our assets. This includes an appropriate employment and allocation of capital, effective cost control, and the application of relevant data in a manner that enhances our decision-making processes.

Sustain

To sustain our business and our quality of earnings we seek to maintain the financial strength of Hospitality and ensure our assets remain relevant in this changing environment.

Over the last financial year, we continued to reinvest in our portfolio to ensure sustained product quality and relevance, with R212 million invested in our hotel properties. Significant projects undertaken included the part furniture, fixture and equipment ('FF&E') refurbishment of the bedrooms at The Westin in Cape Town, with the balance to be completed during the winter months in 2019. It also included the part soft refurbishment of the bedrooms at the Arabella Hotel and Spa near Hermanus in the Western Cape, with the remainder to be completed in winter 2019. We also invested in the refurbishment of the conference rooms at the Birchwood Hotel and Spa in Gauteng, as well as the acquisition of a 1 000m² event and conferencing marquee.

Pleasingly, we also retained our level 1 BBBEE rating under the Tsogo Sun Group, ensuring we remain a responsible corporate citizen.

For the 2020 financial year, the Hospitality board approved capital expenditure of R263 million. Given the Fund's low gearing levels of 16%, the Board is confident that Hospitality will be able to continue to fund its ongoing capital expenditure programme.

For more detailed information on maintaining the relevance of our products, please refer to the performance section of this report on page 28.

Optimise

By optimising our business, we seek to grow rental income through effective contract management and robust tenant relationships.

Notwithstanding challenging trading conditions and the pricing competitiveness in the sector, pleasingly Hospitality's operators were able to maintain their rates.

In response to escalating adverse climate conditions and recent water scarcity in the Western Cape province, Hospitality invested in water resilience measures. This included the installation of desalination plants, filtration plants and increased water storage facilities. Following the completion of the project, The Westin, Southern Sun Cullinan, Southern Sun Waterfront, Radisson Blu Waterfront, Stay Easy Century City, Sun Square Gardens, Garden Court Kings Beach and Protea Hotel Marine are now classified as water self-sufficient.

Growth

We seek to grow our portfolio organically, and also look for value-enhancing acquisitions through platform and single asset transactions that are well diversified both geographically and across brand segments.

This year our average occupancies declined by 1.8p.p. to 61.1p.p. compared to the market, which experienced a decline of 0.9p.p. to 62.4p.p. These results are mainly attributable to lost volume in the Western Cape province, which responded to the weaker market conditions. Further exacerbating factors include the oversupply of midscale and upscale hotels in the province, with 1 200 new rooms having come on stream during the past 18 months, and lingering negative sentiment following severe droughts and water restrictions in Cape Town in recent years.

In 2018, we reported on the proposed acquisition of seven casino precinct properties from Tsogo Sun. During the reporting year, executive management engaged with shareholders on the proposed transaction. Although the transaction received the requisite support from Hospitality's shareholders, it did not enjoy the same support from Tsogo Sun shareholders. This regrettably resulted in the transaction not being implemented.

Following this, on 15 March 2019, Tsogo Sun announced the separation of its gaming and hotel divisions. Hotel interests would be restructured under one holding company, called Tsogo Sun Hotels Limited

Chairman and Chief Executive Officer's report continued

('THL'). THL would be separately listed on the main board of the JSE Limited, and Tsogo Sun will subsequently make a distribution in specie of their entire holding of THL shares to Tsogo Sun shareholders. THL, formerly Southern Sun Holdings Limited, will remain the majority shareholder of Hospitality.

Hospitality continues to seek value-enhancing acquisitions. Our capital structure and low LTVs will allow us to grow our asset base accordingly. Looking ahead, we will remain focused on strengthening our relationships with the specialised hotel management companies that operate our properties and finding synergies that will result in the protection and enhancement of shareholder returns.

For a detailed analysis of our strategic performance, refer to page 26.

Governance and ethics

Hospitality is committed to good governance, which we view as an enabler of value creation. We strive to conduct our business in an ethical, responsible and transparent manner. Our governance framework supports value creation throughout our business, and aligns with the King IV outcomes, namely ensuring an ethical culture, effective control, good performance and legitimacy.

Our relationships with our employees, shareholders and business partners are built on principles of trust, honesty and fairness. We have a zero tolerance policy on any form of bribery and corruption, and our governance processes are regularly reviewed and aligned to reflect changes in the regulatory and business environment.

Subsequent to year end, Hospitality's board was reconstituted, and a new executive management team was appointed, effective 1 June 2019. Mara de Lima, the Chief Financial Officer of Hospitality who has been in the Tsogo group for 12 years, has been appointed as the CEO. The streamlined board now comprises nine members.

We welcome the new board and executive management team and look forward to the insights and contribution as we strive to deliver sustainable returns to our shareholders, while continuing to positively contribute to our employees, business partners and the economy.

Pleasingly, there is an increase in black and female representation, and we believe the Board has the right skills, experience and diversity to deliver on the Group's strategic intentions.

For further information on the Board and committee composition, membership and demographics, please refer to page 42.

Appreciation and prospects

The Board also wishes to extend its gratitude to the management and employees of Hospitality for their efforts in a challenging year characterised by much change.

The Board also extends its gratitude and appreciation to all the Board members over their tenures.

Looking ahead, and despite the recent challenging operating conditions, we have the right people in place, a strong and diversified portfolio, and an appropriate capital structure to continue to deliver value to our stakeholders.

John Copelyn
Chairman

JR Nicolella
Chief Executive Officer

Chief Financial Officer's overview

Mara de Lima
Previous Chief Financial Officer

Riaan Erasmus
Chief Financial Officer

- *Distribution per share of 105.39 cents for the year ended 31 March 2019*
- *Revenue for the year ended 31 March 2019 at R828 million*

LTV

at 16% for the year ended 31 March 2019

Weighted average **cost of net debt** reduced to **9.6%** (2018: 10.3%)

Chief Financial Officer's overview continued

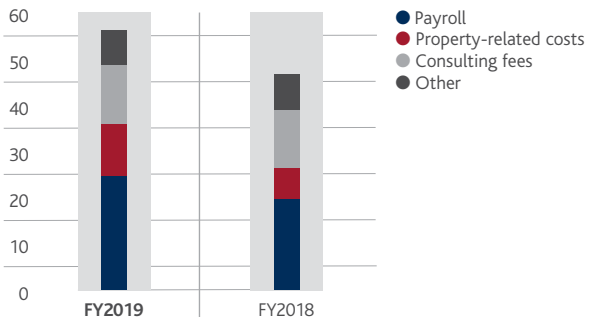
Distributions

The Board declared a distribution of 64.17 cents per share for the six months ended 31 March 2019 resulting in the total distribution per share for the year of 105.39 cents per share. The Fund's distributable earnings for the year decreased by 8% to R606 million, mainly due to the weaker trading conditions in the Western Cape. The Fund currently owns 53 properties valued at R12 billion (2018: R12.6 billion). The Western Cape continues to be the largest contributor to rental income at 38%, followed closely by Gauteng at 32% and the rest of South Africa and SUN1 at 23% and 7% respectively. Fixed rental income represented 65% of the rental income.

Hospitality's operating expenses for the year include the transaction costs related to the unsuccessful casino acquisition of R20 million. Excluding these costs, the year-on-year expenses have increased by R10 million or 21% mainly due to the property-related costs increasing by R5.2 million and payroll costs increasing by R4.7 million. Net finance costs of R167 million (2018: R164 million) are higher than the prior year due to the weaker trading and debt funded capital expenditure.

Year-on-year expenses (excluding transaction costs) are summarised as follows:

HPF expenses (R million)



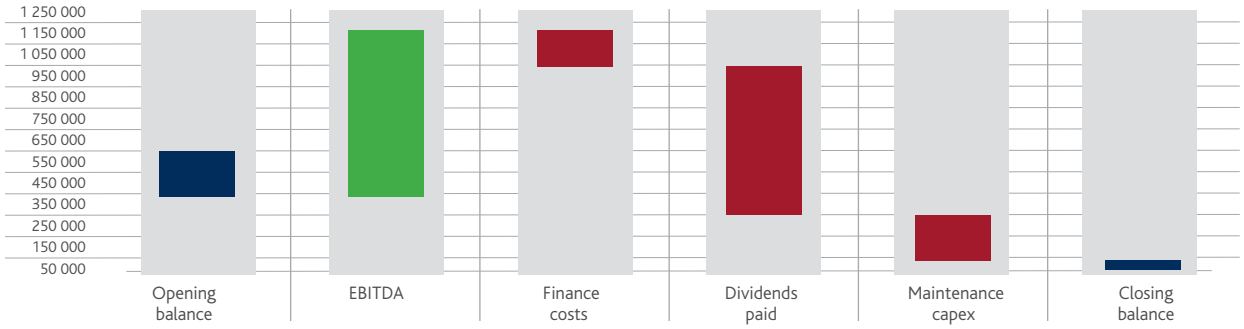

Westin Cape Town

Payroll includes non-executive director fees. The increase in the payroll cost is largely due to the increase in the short-term incentive payable. In the current year, the short-term incentive bonus objectives had been expanded, with the achievement of objectives weighted over four categories, as opposed to only two in the prior year. More information is available in the remuneration section on page 48.

Property-related costs include levies and property taxes on sectional title schemes. Property taxes of freehold hotel properties are accounted for in the hotel income statement before rent. Consulting fees include audit fees, investor relation-related fees and legal fees.

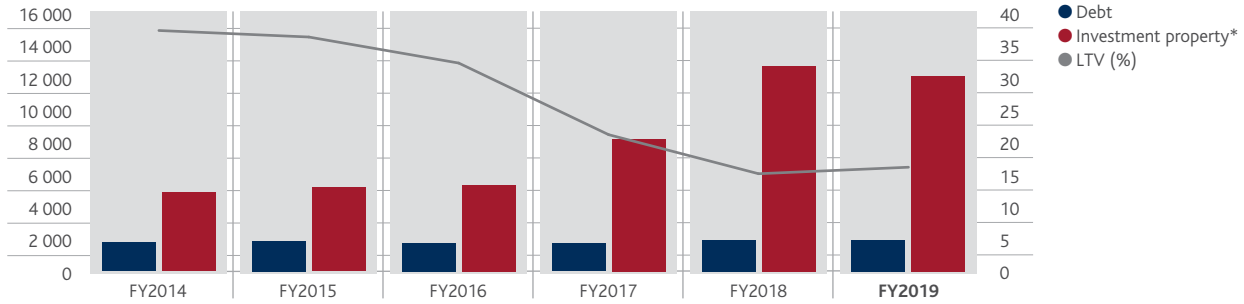

Westin Cape Town

Cash flow analysis (R)



Hospitality has reduced its LTV ratio over the last few years and is currently at 16%, which enables HPF to be financially resilient in these volatile trading condition, as well as facilitating growth through good value acquisitions.

LTV ratio (R million) (%)



** Investment property for the calculation of the LTV % includes available-for-sale assets and assets held for trading.*

Arabella Hotel and Spa

Arabella Hotel and Spa

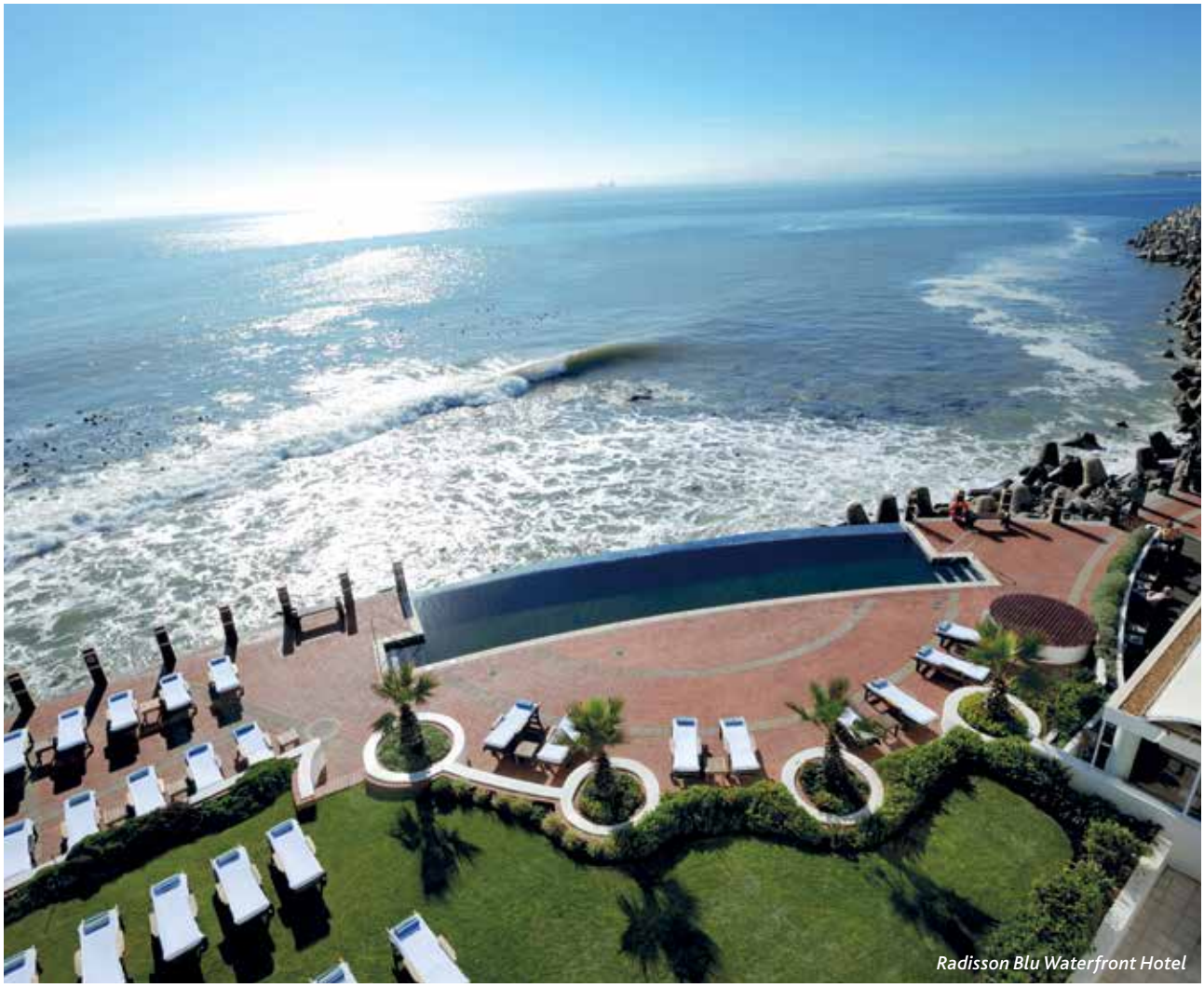
Chief Financial Officer's continued

An interest rate swap with a nominal value of R250 million at a fixed rate of 7.88% matured in February 2019. This interest rate swap was replaced at a nominal value of R300 million at a fixed rate of 7.42% and will mature on 31 March 2022. The interest cover ratio of 4.5 times (2018: 5.0 times) for the 12 months rolling to 31 March 2019 is well above the required debt covenant minimum of 2.0 times. The weighted average cost of net debt to 31 March 2019 is 9.6% (2018: 10.3%). Global Credit Ratings Co. upgraded the Fund's long-term credit rating to A- (ZA) and its short-term credit rating to A1- (ZA) on 27 September 2018. The Fund settled corporate notes HPF08 and HPF09, which matured on 15 April 2019, of R80 million and R150 million respectively. A new secured corporate note for R300 million was issued (HPF12) in April 2019, and will mature on 31 March 2024. The long-term credit rating for secured notes is affirmed as AA with a stable outlook.

Prospects

Hotel trading is expected to remain under pressure until the outlook for the South African economy improves. Gearing is currently low at 16% and the Fund is committed to and able to fund its ongoing capital expenditure programme. In the short term, the directors have, therefore, decided to distribute 100% of distributable earnings to Hospitality's shareholders. The forecasts previously presented on 21 September 2018 in relation to the proposed acquisition of the Tsogo casino precincts are withdrawn, due to the transaction not proceeding and the forecasts no longer being relevant.

Mara de Lima
Chief Financial Officer



Radisson Blu Waterfront Hotel

Future growth drivers

Brand affiliation

A strong local or international brand supports a hotel's identity and competitiveness. The diversity of brands in our portfolio attracts the key domestic and international market segments.

Macro-economy

Hospitality invests solely in South Africa but it monitors both local and global macro-economic factors to identify trends. Property valuations and distributions are impacted by macro-economic factors, which require constant focus and attention from management.

Portfolio management

Hotel operations require specialist expertise and are highly management and labour intensive. Creating strong partnerships with specialist hotel management companies protects the diversity of the Fund. A constant focus on improvement and development for each hotel is necessary in order to maintain products that are relevant to their markets.

Hospitality industry's economic cycle

The hotel economic cycle is generally closely tied to the macro-economic cycle. The cyclical and seasonal nature of the business links into the macro-economic environment and key analytics on trends remain crucial to support investment decisions.

Capital capacity

To maintain an appropriate balance of our debt and equity. Our distributions need to balance our cash requirements for reinvestment with our shareholders' expectations. We need to ensure that we have sufficient flexibility to adapt to prevailing economic conditions, to maintain and improve the portfolio.

Location

Strategic property investments in prime locations, where visibility and accessibility to major business hubs or points of leisure interest are important demand drivers.

Operating model

Developing and attracting a suitable management team over the short and medium term to benefit from their relevant knowledge and experience. Supporting the management team with the correct tools to accurately analyse and evaluate tenant performance.

Future growth drivers continued

Engaging, understanding and responding to our stakeholders

We believe that stakeholder relationships create value and build trust, mutual respect and credibility with our stakeholders which are vital to our long-term sustainability.

Stakeholder groups (direct)	Nature of engagement
Investors* (as detailed in the shareholder analysis on page 97 of the consolidated annual financial statements) and funding institutions, which include Rand Merchant Bank Limited, Standard Bank of South Africa Limited, Absa Bank Limited and Nedbank Limited	• JSE SENS • Media releases and published results • Integrated annual reports and financial statements • Annual general meetings and general meetings • Analyst and investor presentations • Hospitality's website • One-on-one meetings with fund managers
Tenants and hotel management companies	• Monthly and quarterly operational reviews through analytics and direct contact with hotel management companies to review each of their hotels' performance • Contract management as required • Sub-committee, body corporate and/or board membership to ensure good governance • Annual audits, sign off of annual accounts and audited rental certificates obtained
Professional suppliers and business partners	• Vetted and approved development and maintenance suppliers • Vetted and approved specialist FF&E suppliers • Development consultants
Employees (19 full-time employees based at Hospitality's head office in Rosebank (2018: 19))	• Communication from executives • Internal communications and posters • Induction programmes • Ongoing training and education • Performance management programmes • Anti-fraud, ethics and corruption hotline • Staff engagement programme
Government and regulatory authorities	• Establish constructive relationships • Comment and interaction on developments in legislation • Membership of industry bodies, eg SA REIT Association and the Institute of Directors

** In FY2019, executive management engaged with shareholders at appropriate times on the proposed acquisition of a portfolio of seven mixed-use casino properties from Tsogo. The outcome of the transaction is reported on in the Chairman and CEO's report on page 13 and on page 33.*

Our communication with employees and other stakeholders is open, honest, without prejudice and is supported by a disclosure of information policy to guide our behaviour, ensuring that our stakeholders know what to expect from us. We have taken our stakeholders' views into account in formulating our strategic objectives and report content.

Issues and expectations	Link to material matters
• Sustainable growth and returns on investment • Results announcements • Dividends • Risk and opportunities of expansion • Transparent executive remuneration • Corporate governance and ethics • Liquidity and gearing	• Macro-economic climate • Investment opportunity • Regulatory change and compliance • Capital capacity and opportunities • Portfolio management and product relevance
• Absolute and relative performance • Benchmarking and oversight • Trading environment • Capital investment requests • Maintenance of contract terms • Good governance practices	• Macro-economic climate • Local authority capability • Investment opportunity • Regulatory change and compliance • Crime, safety, security and health • Capital capacity and opportunities • Portfolio management and product relevance
• Future business opportunities • Relationships • Project performance • Level of standard and service	• Macro-economic climate • Local authority capability • Investment opportunity • Regulatory change and compliance • Crime, safety, security and health • Capital capacity and opportunities • Portfolio management and product relevance
• Job security • Engagement • Performance management • Clear understanding of reward structures • Health and safety performance • Access to HIV counselling and wellness programmes • Career planning and skills development • Preferred employer	• Macro-economic climate • Regulatory change and compliance • Crime, safety, security and health • Human resources
• Compliance with legislation • Job creation • Investment in public and tourism infrastructure • Investment in disadvantaged communities • Reduction in energy and water consumption	• Local authority capability • Regulatory change and compliance • Crime, safety, security and health

Our material risks and opportunities

Determination of materiality

In line with the IIRC's <IR> framework on materiality, this report includes all information about matters that substantively affect the Company's ability to create and sustain value in the short, medium and long term.

At Hospitality, we define value as delivering sustainable returns to our shareholders, through distributions and capital appreciation, while positively contributing to our employees, business partners and the economy.

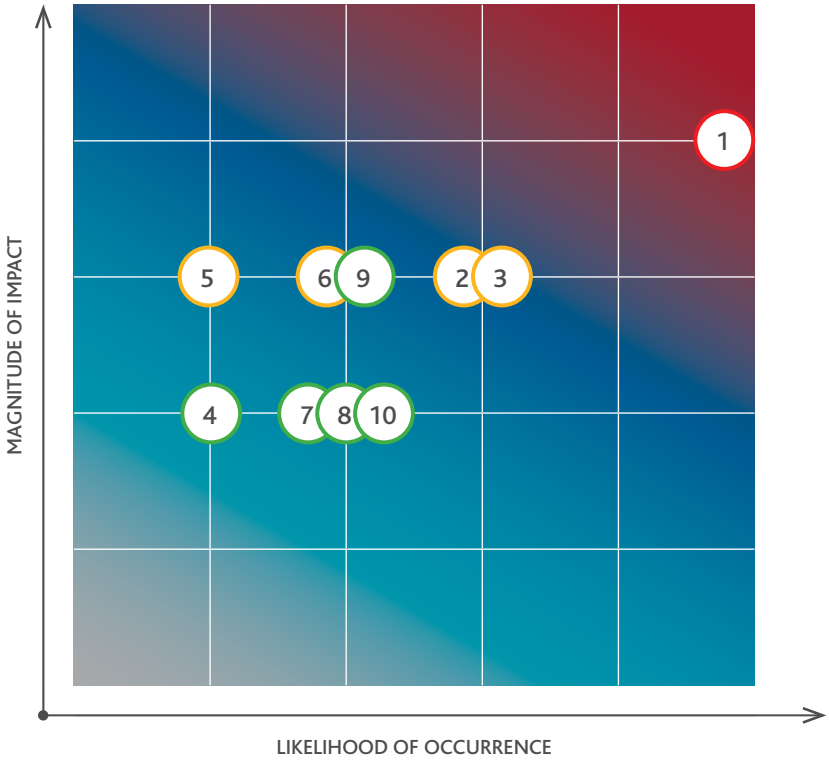
In determining which matters are material for disclosure in our IAR, we have considered whether the matter substantially influences or has the ability to substantially influence our strategy, business model or the forms of capital we utilise.

Our material risks and opportunities linked to strategic response

We determined the material risks and opportunities through the following process:

1. Identify relevant matters
2. Evaluate importance
3. Prioritise material matters
4. Disclose

In order to identify our material risks and opportunities, we considered the global and domestic business environment together with output from our enterprise risk management function and stakeholder engagement. We evaluated and prioritised the relevant matters to determine our material risks and opportunities, which are depicted in the following heatmap. These material risks and opportunities are those that directly impact us. Our risk analysis has not been completed in isolation. Market research was undertaken and a comparison to our majority shareholder was done in order to ensure that matters relevant to the industry and the Group has not been excluded from the process.



Risk matter

1. Macro-economic climate
2. Local authority capability
3. Investment opportunity
4. Regulatory change and compliance
5. Crime, safety, security and health
6. Capital capacity and opportunities
7. Portfolio management and product relevance
8. Human resources
9. Cyber, IT information
10. Credit risk

Risk rating

High Moderate Low

For a detailed understanding of how we manage risk, please refer to page 40 of the governance report.

What it means for us

Material matter 1 Macro-economic climate – Risk and opportunity

Context: Hospitality's operations are concentrated in South Africa and are affected by the cyclical nature of the hospitality industry, which impacts distributions and fair value property valuations.

The Fund's growth is negatively affected by macro-economic and increased funding costs. Exchange rate volatility impacts occupancy in foreign tourism, particularly business travel, leisure and the conferencing market.

The domestic tourism sector was affected by the May 2019 elections, reduced spending in government travel, a consequence of tightened purse strings and more prudent expenditure.

Response: The Fund mitigates inherent trading risk by managing a well-diversified portfolio across geographic location and class of hotel.

Funding costs are mitigated by entering into interest rate swaps. Hospitality is currently hedged at 57%.

Our loan to value ratio is low and is well within the statutory limits of a REIT, and we are maintaining comfortable headroom on our covenants, with debt capacity constrained to group requirements.

We work with industry bodies such as the Western Cape Tourism, Trade and Investment ('WESGRO') and the South African Tourism Services Association ('SATSA') in their efforts to attract visitors to South Africa, which we believe is a competitive tourism destination.

Strength of risk response
Good
Magnitude of impact
High
Likelihood of occurrence
Almost certain
Risk rating
High
Strategic objective

Material matter 2 Local authority capability – Risk and opportunity

Context: Service delivery, limited infrastructure investment and funding challenges at South Africa's municipalities have compounded their capacity to supply water and electricity to ratepayers.

Inconsistent water supply and unreliable electricity provision affect the operational capability of hotels to provide consistent services to guests.

Municipalities and utility providers also increase rates, property taxes, water and electricity to fund their own shortfalls, placing an additional cost burden on the returns to shareholders.

Response: The Fund aligned its capital expenditure budgets to reduce dependencies on utilities. We also contracted the services of independent valuers and experts to conduct municipal valuations.

The Fund earns 40% of its rental income from the Western Cape. Cape Town has implemented a fire readiness and response programme and a water resilience plan.

Hospitality is working with industry bodies such as WESGRO, SAT and SATSA to seek solutions that will benefit the province's hospitality industry.

Strength of risk response:
Good
Magnitude of impact
Moderate
Likelihood of occurrence
Probable
Risk rating
Moderate
Strategic objective

Material matter 3 Investment opportunity – Risk and opportunity

Context: Challenging economic conditions, coupled with an oversupply of hotels in certain markets, lead to subdued consumer spending. Therefore, some investments are not yielding the returns expected.

It is in this operating environment that we assess hotel investment and major refurbishment opportunities, understanding the value such opportunities could bring to Hospitality's portfolio.

Response: We invest in quality properties in the South African hospitality industry, ensuring we have a diversified portfolio across geographic location and class of hotel.

Investment opportunities are evaluated and approved by the Board, and formal due diligence is conducted by expert service providers prior to final acquisition.

The Fund utilised the poor trading conditions in the Western Cape to commence major refurbishments at the Westin Hotel and the Arabella Hotel and Spa. These refurbishments will be completed in the next financial year.

Strength of risk response
Good
Magnitude of impact
Moderate
Likelihood of occurrence
Possible
Risk rating
Moderate
Strategic objective

Financial strength and durability

Property portfolio management

Organic growth

Our material risks and opportunities continued

Material matter 4 Regulatory change and compliance – Risk

Context: Hospitality is faced with an increasing complexity of compliance requirements. Congruently, cost of compliance is also increasing.

Administrative burdens associated with visa regulations for foreign minors entering South Africa, for example, have affected the country's reputation as a destination of choice and have therefore directly impacted occupancy.

The Fund is also subject to regulatory requirements as per the Companies Act, the JSE Listings Requirements and King IV, as well as the voluntary guidelines of the International Integrated Reporting Framework, as applicable.

Response: Hospitality supports the principles of sound corporate governance.

Effective compliance controls are in place throughout the organisation. We meet our annual declaration to the JSE on REIT compliance.

The Fund maintained its level 1 B-BBEE rating. We continue to monitor any developments from government regarding the proposed transformation codes in the applicable charter, and assess our tourism and property charter.

Our management team and employees undergo regular training on changes in the legislation and the policy environment.

Strength of risk response
Good
Magnitude of impact
Low
Likelihood of occurrence
Rare
Risk rating
Low
Strategic objective

Material matter 5 Crime, safety, security and health – Risk

Context: Hospitality is concerned about the safety, security and wellbeing of its employees and tenants.

Criminal activities have a considerable effect on our business and the hospitality industry. Fraud committed by staff, or other external parties, remains a threat to our industry and reputation.

Response: We implement incident response procedures and apply preventive measures to combat and detect fraud and suspicious behaviours. To further strengthen our defence, we ensure segregation of duties are embedded throughout the group.

The Board approves all capital expenditure requests and budgets, and financial controls are in place to prevent overspend. Internal and external audits are conducted to validate controls and processes.

We hire skilled and experienced people to ensure complete and accurate reporting; experts' services, provided centrally, evaluate data; balance sheet reconciliations are conducted monthly; and construction, operation, prevention and exposure reports are compiled by independent experts.

Strength of risk response
Good
Magnitude of impact
Moderate
Likelihood of occurrence
Rare
Risk rating
Low
Strategic objective

Material matter 6 Capital capacity and opportunities – Opportunity

Context: As an investor in the South African hospitality industry, the sustainability of our business depends on our ability to identify and fund new opportunities that align with our strategy.

Response: The Fund regularly conducts robust assessments of all new opportunities. The performance of our existing portfolio is monitored by our board and guides our appetite for disposals and/or acquisitions.

Our capital expenditure programme, reviewed and approved by the Board, is within risk parameters. Our distribution policy, as well as our budgets, are also reviewed and approved by the Board.

Strength of risk response
Good
Magnitude of impact
Moderate
Likelihood of occurrence
Possible
Risk rating
Moderate
Strategic objective

Financial strength and durability

Property portfolio management

Organic growth

Material matter 7 Portfolio management and product relevance – Opportunity

Context: Our products are diversified across domestic and international brands, and product relevance in our target markets impact our ability to create value in the long term. Hotel management companies manage our properties on behalf of the tenants, and relationship and contract management is a crucial part of our business.

Given the competitive space we operate in, ongoing maintenance and repairs, where necessary, is essential to avoid our offerings becoming obsolete. Furthermore, to remain relevant, investing in fire, life and safety requirements relative to the age of the property is critical.

To attract and retain increasingly discerning guests, it is necessary to invest in technology and social trends.

Response: The Fund's capital structure and capacity allows for five-year capital expenditure programmes, which are in place for each property and updated annually. Our capital expenditure budgets are approved by the Board.

We regularly review the performance of our hotel management companies, conduct property visits and conduct site inspections. We have comprehensive insurance cover in place, along with COPE reports, and keep an assets and infrastructure dossier up to date.

Strength of risk response
Good
Magnitude of impact
Low
Likelihood of occurrence
Possible
Risk rating
Low
Strategic objective

Material matter 8 Human resources – Risk and opportunity

Context: Our independent board, along with our executive team, have the required skills, capabilities and expertise to advise and lead the Fund.

The hospitality and tourism industries in South Africa are constantly evolving and is characterised by high turnover at management level, which could lead to skills challenges or shortages.

Changes in labour legislation, labour instability and employment equity requirements could impact our business.

Response: The Fund has job specifications to ensure effectiveness and clarity for both managers and staff.

Employees are skilled appropriately and have the necessary experience for particular job requirements. We continuously invest in training programmes that enhance specific skill sets of our employees. Central services are used for expert services.

Strength of risk response
Good
Magnitude of impact
Low
Likelihood of occurrence
Possible
Risk rating
Low
Strategic objective

Material matter 9 Cyber, IT information – Risk

Context: The hospitality business operates in a datacentric environment.

Cybercrime, hacking, hactivism and other IT breaches are on the increase, posing a threat to data integrity and increasing the risk of loss of information.

South African companies are required to comply with the PoPI Act, which requires businesses to ensure they collect, process and store personal information in a responsible manner, and are held accountable for any abuses that may arise.

Response: We maintain a robust IT infrastructure, ensuring it is impervious to external attacks.

Our IT systems are regularly backed up with reputable service providers. Our central servers are held with third parties, who consistently monitor our IT security systems to ensure it is up to date.

Strength of risk response
Satisfactory
Magnitude of impact
Low
Likelihood of occurrence
Probably
Risk rating
Moderate
Strategic objective

Material matter 10 Credit risk – Risk

Context: An uncertain economic environment impacts Hospitality's business. A challenging economic climate impacts the risk of tenant defaults. Our management companies are also affected by their guests' ability to settle bad debts during difficult times.

Response: The Fund mitigates credit risk through a debtor management programme.

We have the necessary deposits and bank guarantee procedures in place to identify defaults and regularly monitor and identify non-serviceability of debtors.

Strength of risk response
Good
Magnitude of impact
Low
Likelihood of occurrence
Possible
Risk rating
Low
Strategic objective

Our strategy and performance

Our strategy provides a comprehensive and responsive framework to deliver value to our shareholders and stakeholders.

Informed by our ever-changing operating environment and our stakeholder engagement, our strategy is regularly reviewed to ensure that it proactively responds to our material risks and opportunities.

	STRATEGIC OBJECTIVES	STRATEGIC ENABLERS
Sustain	**Financial strength and durability** An appropriate capital structure and dividend policy to ensure the business survives through the economic cycles.	**Product relevance** Own and maintain a variety of quality properties that are relevant in their markets.
Optimise	**Property portfolio management** Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships.	**Business intelligence** Refine internal processes and systems to support portfolio management and decision making.
Grow	**Organic growth** Grow our portfolio through organic means.	**Acquisitions** Continue to seek value-enhancing acquisitions, both through platform transactions and key single asset acquisitions that are well diversified both geographically and across brand segments.

Demonstrating delivery

In order to demonstrate our strategy in action, we have built our performance and outlook reporting around our strategy.

Responsiveness test

The diagram below demonstrates the extent of how our strategy responds to material risks and opportunities:

Material matters	Sustain	Optimise	Grow
Macro-economic climate	✓	✓	✓
Local authority capability	✓	✓	✓
Investment opportunity	✓	✓	✓
Regulatory change and compliance	✓	✓	✓
Crime, safety, security and compliance	✓	✓	✓
Crime, safety, security and health	✓	✓	✓
Capital capacity and opportunities	✓	✓	✓
Portfolio management and product relevance	✓	✓	✓
Human resources	✓	✓	✓
Cyber, IT information	✓	✓	✓
Credit risk	✓	✓	✓

Sustain

Financial strength and durability

Maintain an appropriate capital structure and dividend policy to ensure sustainability through the economic cycles.

Approach

- As a REIT, the majority of our profit (a minimum of 75%) is required to be distributed to shareholders. The Fund is dependent on the financial markets to source equity and debt capital to fund growth and optimise our capital structure. As the Fund gains increasing critical mass, our resilience to economic cycles improves through the diversity of our locations, brands and classes of hotels.
- Our secured debt covenants require an LTV below 40%, an interest cover ratio of not less than 2.0x, and a net-debt-to-EBITDA ratio of less than 3.5x.

Related material matters

- Macro-economic climate.
- Investment opportunity.
- Regulatory change and compliance.
- Capital capacity and opportunities.

2019 performance

Hospitality has transformed its financial strength and sustainability through several initiatives with a focus on priorities.
We have restructured the previously complicated debt structure into a much simpler structure with one SPV as security for all our borrowings. Properties encumbered can be added or removed to facilitate efficient and effective lending, while still ensuring appropriate asset management in decisions to be taken on asset acquisitions or disposals. Hospitality is well within its debt covenants, with an LTV of 16% (against a covenant of not more than 40%), an interest cover ratio of 4.5x (against a covenant of not less than 2.0x), and a net-debt-to-EBITDA ratio of 2.5x.

Hospitality's dividend policy has remained unchanged for the current year and the immediate future due to the low LTV (current policy is to distribute 100% of our distributable earnings). Our dividend policy will continue to be reviewed annually to ensure the strength of our financial sustainability. The Fund is well positioned to take on more gearing and is in a solid financial position to deliver on creating shareholder value into the future.

Key performance indicators

	Self-assessment	12 months ended 2019	12 months ended 2018	9 months 31 March 2017
Distributable earnings	○	**R606 million**	R656 million	R345 million
Dividend per share (cents)^	○	**105.39**	120.29	105.09
Interest cover ratio	○	**4.5x**	5.0x	4.0x
LTV	○	**16.3%**	15.4%	21.1%
Average cost of net debt	○	**9.6%**	10.3%	10.4%
Market capitalisation*	○	**R5.7 billion**^	R6.8 billion^	R4.6 billion^

^ Total ordinary shares in issue (FY2019 and FY2018: 578 154 207) (FY2017: 330 509 932).

- ○ 2019 performance improved compared to prior year or achievement in line with strategy.
- ○ Performance flat against prior year or strategic goals.
- ○ Performance below prior year or strategic goals.

Key initiatives

(i) Ongoing review and management of our capital structure.
(ii) Ensure an appropriate distribution policy/ratio.

Reflecting back on 2018's commitments

In our 2018 IAR, we stated certain priorities for our 2019 financial year. Below is the status of these goals:

2019 priorities	Status
Realise an improvement on the weighted average cost of debt post-early settlement fees on debt restructure	✔
Maintain growth in distribution and distribution per share	✘
Increase gearing ratio to utilise cash more effectively	✔
Increase DMTN programme to R10 billion	✔

✔ Completed ● Ongoing ✘ Not achieved

2020 objectives and future outlook

- Growth in distribution and distribution per share.
- Increase gearing ratio to utilise cash more effectively.

Our strategy and performance continued

Sustain

Product relevance

Own and maintain a variety of quality properties that are relevant in their markets.

Approach

- Hospitality has a five-year capital expenditure programme per property, which is prepared in consultation with the hotel management companies. These include major upgrades and extensions, smaller projects to improve hotel amenities as well as ongoing maintenance and IT capex. Capital investments and projects are proposed by management and approved annually by the Board.
- Under this programme, the investment cycle for major refurbishments is generally 10 to 14 years while softs, which include upholstery, linen and curtains, are replaced on average every five to seven years. Furniture, fittings and equipment consist of various components, with expected replacement cycles of between five and 12 years.

The Fund's capital expenditure benchmark is on average 20% of rental income and is evaluated on the investment criteria per property:

- Once projects are approved, Hospitality is tasked with overseeing the projects which are outsourced to specialist service providers. Suppliers are assessed and approved to ensure standards are maintained at competitive prices.
- We continuously review the suitability of individual properties into the Fund's investment strategy and will, from time to time, dispose of properties which no longer meet our criteria.

Related material matters

- Macro-economic climate.
- Local authority capability.
- Investment opportunity.
- Regulatory change and compliance.
- Capital capacity and opportunities.
- Portfolio management and product relevance.

2019 performance

A number of capital improvement projects were undertaken and included the following larger projects:

- The first phase of the FF&E refurbishment of the bedrooms at The Westin and at Arabella took place over the winter months. Both these projects will be completed in FY2020.
- The refurbishment of 'Domestic Centre' conference facility at the Birchwood Hotel was completed together with an acquisition of a 1 000m² marquee and refurbishment of food and beverage venues.
- The restaurant refurbishment at the Radisson Blu Gautrain.
- Public area refurbishment at Champagne Sports Resort's reception and golf club house.
- The enlargement and refurbishment of the reception at Garden Court South Beach.
- Desalination plants have been procured and installed at The Westin (to supply fresh water to The Westin, Southern Sun Cullinan, and Southern Sun Waterfront), the Radisson Blu Waterfront and StayEasy Century City. Filtration plants are installed at Southern Sun Newlands, Sunsquare Gardens, Garden Court King's Beach and Protea Hotel Marine. Water storage capacity was increased at Protea Victoria Junction, SUN1 Foreshore, SUN1 Parow and SUN1 Milnerton.
- Various plant and equipment replacement at several properties, for example chillers, lifts and upgrading of bedroom door locks.

Key performance indicators

	Self-assessment	**12 months ended 2019**	12 months ended 2018	9 months 31 March 2017
Capital expenditure	○	**R212 million**	R148 million	R73 million
Capital expenditure as % of rental income	○	**26%**	17%	15%
Disposals	○	**None**	Portion of Kopanong for R1 million	1 property for R157 million

○ 2019 performance improved compared to prior year or achievement in line with strategy.
○ Performance flat against prior year or strategic goals.
○ Performance below prior year or strategic goals.

Key initiatives

(i) Maintain and upgrade key properties.
(ii) Develop initiatives to address utilities risk.

Reflecting back on 2018's commitments

In our 2018 IAR, we stated certain priorities for our 2018 financial year. Below is the status of these goals:

2019 priorities	Status
The first phase of the FF&E refurbishment of the bedrooms at The Westin and Arabella Hotel and Spa– the project will be completed in FY2020	✔
Refurbishment of two large conference facilities at the Birchwood Hotel and OR Tambo Conference Centre	✔
Final commissioning and licensing of the water plants at the Cape Town properties	✔
Restaurant refurbishments at the Radisson Blu Gautrain	✔
Public area refurbishment at Champagne Sports Resorts' reception and golf club house	✔
Various plant and equipment replacement at several properties, for example chillers, lifts and upgrading of bedroom door locks	✔

✔ Completed ● Ongoing ✘ Not achieved

2020 objectives and future outlook

- The second phase of the FF&E refurbishment of the bedrooms at The Westin over the winter months. All the bedrooms will be completed at the end of this phase.
- The second phase of the FF&E refurbishment of the bedrooms at Arabella Hotel and Spa over the winter months. All the bedrooms will be completed at the end of this phase.
- Refurbishment of the 'International Centre' conference facility at Birchwood Hotel and OR Tambo Conference Centre, refurbishment of smaller conference and meeting facilities, and the replacement of kitchen and laundry equipment.
- Commencement of the FF&E refurbishment of the bedrooms at the Garden Court Morningside.
- Commencement of the FF&E refurbishment of the bedrooms at the Garden Court Hatfield.
- Façade repairs and repainting of the Southern Sun Cullinan.
- Façade repairs and repainting of the StayEasy Century City.
- The first phase of the refurbishment of the loft rooms at the Protea Hotel Marine.
- Replacement of corridor carpets at Radisson Blu Gautrain.
- Replacement and upgrade of lifts at Garden Court South Beach.
- Softs refurbishment to conference rooms and restaurant at Champagne Sports Resort.

Our strategy and performance continued

Optimise

Property portfolio management

Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships.

Approach

- Our property portfolio management approach is outlined in detail in our business model (see pages 8 and 9).

Related material matters

- Macro-economic climate.
- Local authority capability.
- Investment opportunity.
- Regulatory change and compliance.
- Crime, safety, security and health.
- Capital capacity and opportunities.
- Human resources.
- Cyber, IT information.
- Credit risk.

2019 performance

- The Arabella Hotel & Spa and the Mount Grace Hotel & Spa have been included in Marriott's Autograph collection brand with the view to improve their distribution and access to Marriott's loyalty programme.
- The hotel operating plans and budgets are reviewed quarterly and prepared annually.
- Various acquisitions were initiated, for example various sections in the Sandton Eye Body Corporate with the view to rationalise parking ownership and various areas that could be considered for alternative use.

Key performance indicators*

	Self-assessment	**12 months ended 2019**	12 months ended 2018	9 months 31 March 2017
Contractual rental income		**R828 million**	R867 million	R499 million
Occupancy		**61.1%**	62.9%	63.6%
ARR		**R1 100**	R1 089	R1 088
RevPar		**R673**	R685	R692
B-BBEE rating		**Level 1**	Level 1	Level 1

** Includes Hospitality portfolio of 53 properties in FY2018 and FY2017.*

- 2019 performance improved compared to prior year or achievement in line with strategy.
- Performance flat against prior year or strategic goals.
- Performance below prior year or strategic goals.

Key initiatives

(i) Quarterly reviews with hotel management on business performance.
(ii) Reviews of operating plans, standards, and brand opportunities.

Reflecting back on 2018's commitments

In our 2018 integrated annual report, we stated certain priorities for our 2018 financial year. Below is the status of these goals:

2019 priorities	Status
Arabella Hotel and Spa and Mount Grace Hotel and Spa will be included in Marriott's Autograph Collection brand, with the view to improve their distribution and accessibility to Marriott's global loyalty programme	✔
Ongoing review of the hotel operating plans and business opportunities	✔

✔ Completed ● Ongoing ✘ Not achieved

2020 objectives and future outlook

- Quarterly reviews with hotel management on the business performance will continue.
- The reviews of operating plans, standards and brand opportunities will continue.
- Various initiatives under the approved capital expenditure plans are aimed at reducing the cost and/or consumption of water and electricity, improving operational resilience.

Optimise

Business intelligence

Build and refine internal processes and systems to support portfolio management and decision-making.

Approach

- Hospitality's portfolio is growing significantly and the Fund aims to act as opportunities arise, or identify risks before they become material. This requires an information database with reports being readily available to management.

Related material matters

- Regulatory change and compliance.
- Crime, safety, security and health.
- Portfolio management and product relevance.
- Human resources.
- Cyber, IT information.

2019 performance

Hospitality has aligned its accounting system with its majority shareholder. Information is consolidated and reported on business planning and consolidation software, with the underlying general ledger maintained in SAP Software Solutions. The capital expenditure process has been matured in SAP and is running efficiently. The Fund has built a database, to retain all the relevant hotel information received in order to analyse information and improve decision-making.

Key initiatives

(i) Build and refine internal processes and systems to support portfolio management and decision-making.
(ii) Accounting system integration and streamlining.

Reflecting back on 2018's commitments

In our 2018 IAR, we stated certain priorities for our 2019 financial year. Below is the status of these goals:

2019 priorities	Status
Complete the SAP integration (accounts receivable and invoicing)	✔
Complete the database implementation	✔
Continue to improve the internal control environment through the use of systems at the Fund	✔
Continue to analyse and enhance the systems and processes in order to effectively manage the portfolio	✔

✔ Completed ● Ongoing ✘ Not achieved

2020 objectives and future outlook

- Continue to improve the internal control environment through the use of systems at the Fund.
- Continue to analyse and enhance the systems and processes in order to effectively manage the portfolio.
- Refine the monthly reporting internally and quarterly reporting to the Board, using the system's tools available.

Our strategy and performance continued

Grow

Organic growth

Grow our portfolio through organic means.

Approach

- Monitor performance strategies of the management team at the hotel properties.
- Comparisons of hotel performance against the market performance of the key regions.
- Review key initiatives to protect or enhance operating margins.

Related material matters

- Macro-economic climate.
- Local authority capability.
- Investment opportunity.
- Crime, safety, security and health.
- Capital capacity and opportunities.
- Portfolio management and product relevance.

2019 performance

The hotel trading results are compared on a like-for-like basis for the year ended 31 March 2019. Room occupancy (excluding SUN1) for the Fund's hotels declined by 2.2p.p. to 62.6% while the market experienced a decline in occupancy levels of 0.9p.p. to 62.4%. (For comparison to the STR Global South African Hotel Review ('STR') the SUN1 trading results are excluded.)

The general sentiment towards the economy saw increased pricing competitiveness across all the market segments. This reflected in the ARR for the portfolio increasing marginally by 0.5% on the prior year, mainly due to the lack of rate growth from the Western Cape hotels. RevPar thus decreased by 2.0%. The STR figures show a growth in ARR of 1.1% and a decline in RevPar of 0.5% for the South African market over the year.

Hotel occupancy for the Fund's Western Cape hotels recovered in the second half of the year, although not enough to compensate for the trading decline in the first six months. Occupancies declined by 5.2p.p. to 61.8% and were impacted by the additional supply into the Western Cape and the poor sentiment stemming from the Cape Town water crisis. ARR in the Western Cape is flat on the prior year at R1 647, resulting in a RevPar decline of 7.8% to R1 018. As reported by STR, occupancy for the region declined by 3.0p.p. to 63.8%, the ARR is 1.8% behind the prior year resulting in a RevPar decline of 6.1% to R1 009.

In Gauteng, Hospitality's hotel occupancy over the period grew by 0.3p.p. compared to the prior year to an occupancy of 59.9%. Individual hotels' trading remained volatile over the period with ARR increasing by 1.7%, resulting in RevPar growth of 2.2% to R614. For the STR participating hotels in Gauteng, RevPar increased by 2.5% to R688 and for the hotels in the rest of South Africa, RevPar grew by 2.9% to R668, due to growth in the ARR. The remaining hotels in the Fund in the rest of South Africa grew RevPar by 3.9% to R653, due to the growth in rate.

For the SUN1 properties, hotel occupancy was 2.6p.p. down compared to the prior year but with ARR increasing by 5.9%, RevPar grew by 1.0% to R272.

Key performance indicators

Occupancy^	FY2019 %	FY2018 %	FY2017 %	FY2016 %	FY2015 %
Western Cape	**61.8**	67.0	68.8	65.7	64.7
Gauteng	**59.9**	59.3	60.2	59.3	58.6
Rest of SA	**67.3**	68.9	66.4	63.9	66.4
Sub-total (excluding SUN1)	**62.6**	64.4	64.6	62.6	62.6
SUN1	**54.0**	56.6	58.5	63.2	63.0
Total	**61.1**	63.0	63.6	62.7	62.6
SA hotel industry ('STR')* occupancy	**62.4**	64.2	65.1	64.0	62.5

^ Includes Hospitality's portfolio of 52 properties and excludes Champagne Sports Resort up to FY2018.
** STR Global South African Review: April to March.*

Access Hospitality's annual results presentation on **http://www.hpf.co.za/investors** for more trading results.

Key initiatives

(i) Quarterly reviews with hotel management on business performance.
(ii) Reviews of operating plans, standards, and brand opportunities.

2020 objectives and future outlook

Hotel trading is expected to remain under pressure until the outlook for the South African economy improves. Local corporate and government travel is still muted, with a slow recovery expected. International travel is showing signs of improvement on the weaker Rand but remains volatile.

Grow

Approach

- Our approach to growth is to invest in well located, value-enhancing hotels in major urban centres with strong brands and diverse source markets.
- We evaluate acquisition across a number of criteria including macro-economics, location and class of hotel, yield potential and debt sourcing.

Related material matters

- Macro-economic climate.
- Local authority capability.
- Investment opportunity.
- Regulatory change and compliance.
- Crime, safety, security and health.
- Capital capacity and opportunities.

2019 performance

Hospitality entered into agreements with Tsogo Sun to acquire seven casino precinct properties for an aggregate purchase consideration of R23 billion. Although Hospitality's shareholders supported the transaction at a general meeting held on 23 October 2018, the transaction and the subsequent distribution by Tsogo of its entire Hospitality shareholding to Tsogo shareholders, did not enjoy the necessary support from Tsogo shareholders for their implementation. Accordingly, Tsogo withdrew the resolutions pertaining to the transaction from the Tsogo general meeting held for the purpose of agreeing the proposed transaction. The sale of shares and subscription agreement was subsequently terminated by agreement between Tsogo, Hospitality and the remaining parties to that agreement. As a result, the proposed transaction was not implemented.

Acquisitions

Continue to seek value-enhancing acquisitions, both through platform transactions and key single asset acquisitions that are well diversified both geographically and across brand segments.

Key performance indicators

	Self-assessment	12 months ended 2019	12 months ended 2018	9 months 31 March 2017
Property portfolio value	●	R12.0 billion	R12.6 billion	R8.1 billion
Number of hotels	●	53	53	24
Net asset value per share	●	R17.77	R19.21	R19.96

● 2019 performance improved compared to prior year or achievement in line with strategy.
● Performance flat against prior year or strategic goals.
● Performance below prior year or strategic goals.

Reflecting back on 2018's commitments

In our 2018 IAR, we stated certain priorities for our 2019 financial year. Below is the status of these goals:

2019 priorities	Status
Hospitality has entered into agreements with Tsogo and its wholly owned subsidiaries to acquire seven casino precinct properties for an aggregate purchase consideration of R23 billion.	✕
We will continue to consider hotel property acquisitions in key locations.	●

✓ Completed ● Ongoing ✕ Not achieved

2020 objectives and future outlook

- Hospitality will continue to consider hotel property acquisitions in key locations.

Corporate governance

Rosa van Onselen
Company Secretary

Introduction

Hospitality has implemented King IV. The process of implementing further practices to strengthen King IV compliance remains ongoing and includes elements such as a formal stakeholder engagement policy and assurance on non-financial information.

Ethics in action

The ethical character and morals of Hospitality are set by the Board and flow through to management, who are tasked to lead by example.

The code of ethics adopted by the Board is underpinned by supporting policies, including the code of conduct and conflicts of interest and share dealing policies. The social and ethics committee plays an amplified role in the implementation of anti-corruption and anti-fraud initiatives as set out in its report on page 46.

The codes of ethics and conduct record the Company's culture, how business is conducted and how people are treated. The conflict of interests policy explains real and perceived conflicts of interests, and details the process for disclosure. General disclosures of directors' interests are made at least annually to the Company Secretary and are updated during the year. These disclosures are available to all board members for inspection.

Dealing in Company securities by directors, their associates and senior Company officials is regulated and monitored in accordance with the JSE Listings Requirements and the Company's share dealing policy. Hospitality maintains a closed period from the end of a financial period to the day of publication of its financial results and any time when the Company's shares are trading under cautionary.

The Group prohibits all directors and employees from disclosing confidential information or from using confidential information, not generally known or available to the public, for personal gain.

The Group's success depends on employing the most suitable people and establishing a working environment free from discrimination, harassment, intimidation or coercion based on race, religion, gender, age, nationality or disability. Training on the Group's governance policies and processes form part of the Company's induction programme for employees and non-executive directors.

Responsible corporate citizenship

The Board believes that the Group meets the definition of 'responsible corporate citizen' as a result of the implementation of its corporate governance policies and the governance framework that oversees and monitors such implementation.

Further information on stakeholder engagement and corporate citizenship can be found on pages 20 and 46, respectively.

Value creation and reporting

The formulation and development of the Group's short, medium and long-term strategy, including policies and operational plans to give effect to this strategy, has been delegated to management, for annual review and approval by the Board of directors. Refer to page 26 for further information on our strategy.

The Board accepts its accountability to shareholders for the Group's performance and activities. Hospitality communicates with shareholders in person, through results presentations or face-to-face meetings, through its website, its transfer secretaries, its IAR and announcements on SENS and the press.

The AGM and other general meetings give the directors the opportunity to inform shareholders about current and proposed operations and enables them to express their views on business activities.

Hospitality's reporting philosophy and statement on assurance can be found under 'About this report' on page 1.

Board of directors

Hospitality has a unitary board. The Board met on eight occasions during the year under review. The roles of the Chairman and the CEO are clearly defined to ensure a balance of power. The delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibility. No one director has unfettered powers of decision-making. While the Chairman is a non-independent non-executive director, the Board has appointed a strong lead independent non-executive director to ensure that the necessary independence is upheld in the functioning of the Board. The lead independent non-executive director leads in the absence of the Chairman and assists with the management of any actual or perceived conflicts of interest that may arise; and will lead the performance appraisal of the Chairman.

The Board's main functions, as set out in its approved charter, include:

- Exercising control of the Group and providing leadership
- Adopting strategic plans, delegating and monitoring their implementation by management
- Considering risks and opportunities in line with the Company's agreed risk parameters and approving major issues, including the Company's investment policies, acquisitions, disposals and reporting as well as monitoring operational performance
- Monitoring the Company's performance
- Acting in the best interest of the Company and being accountable to shareholders and stakeholders

Hospitality's board charter is regularly reviewed. The directors' varied backgrounds and experience, as set out in their curricula vitae, which can be found on Hospitality's website on http://www.hpf.co.za, provide an appropriate mix of knowledge and expertise that is necessary to manage the business effectively. A clear division of responsibilities at board level ensures a balance of power and authority.

Although Hospitality has adopted a board diversification policy, that includes race and gender diversity, no voluntary targets for race and gender have been set. Board diversity is assessed and monitored annually. The Board considers race and gender as a core measurement in the appointment of new members.

Race and gender diversity at board level had improved as a result of the reconstitution of the Board, effective 1 June 2019. The Board is satisfied that its current composition, the components of which are set out in the graphs on page 43, reflects an appropriate mix of knowledge, skills, experience, diversity and independence.

Board appointments are conducted in a formal and transparent manner.

For the purpose of succession planning, Hospitality seeks to appoint from within the Company and has access to the available resources, skills and expertise of the larger THL Group.

Directors are assessed by the nomination committee and suitable candidates are recommended to the Board for appointment. One-third of the directors retire annually at the AGM. In addition thereto, any director that has been appointed by the Board since the last AGM or any director that has reached the age of 70 years, retires annually. If they are eligible, these directors may offer themselves for re-election and if appropriate, will be recommended by the Board to shareholders for re-election.

During the year under review, the following changes in board composition occurred:

- Zola Malinga did not stand for re-election at the AGM held on 18 October 2018
- Keith Randall resigned as CEO and was replaced by Rob Nicolella on 1 November 2018
- Jacques Booysen resigned as a non-executive director and Marcel von Aulock was appointed as a non-executive director on 1 December 2018
- Don Bowden and Zuko Kubukeli resigned as independent non-executive directors on 15 March 2019

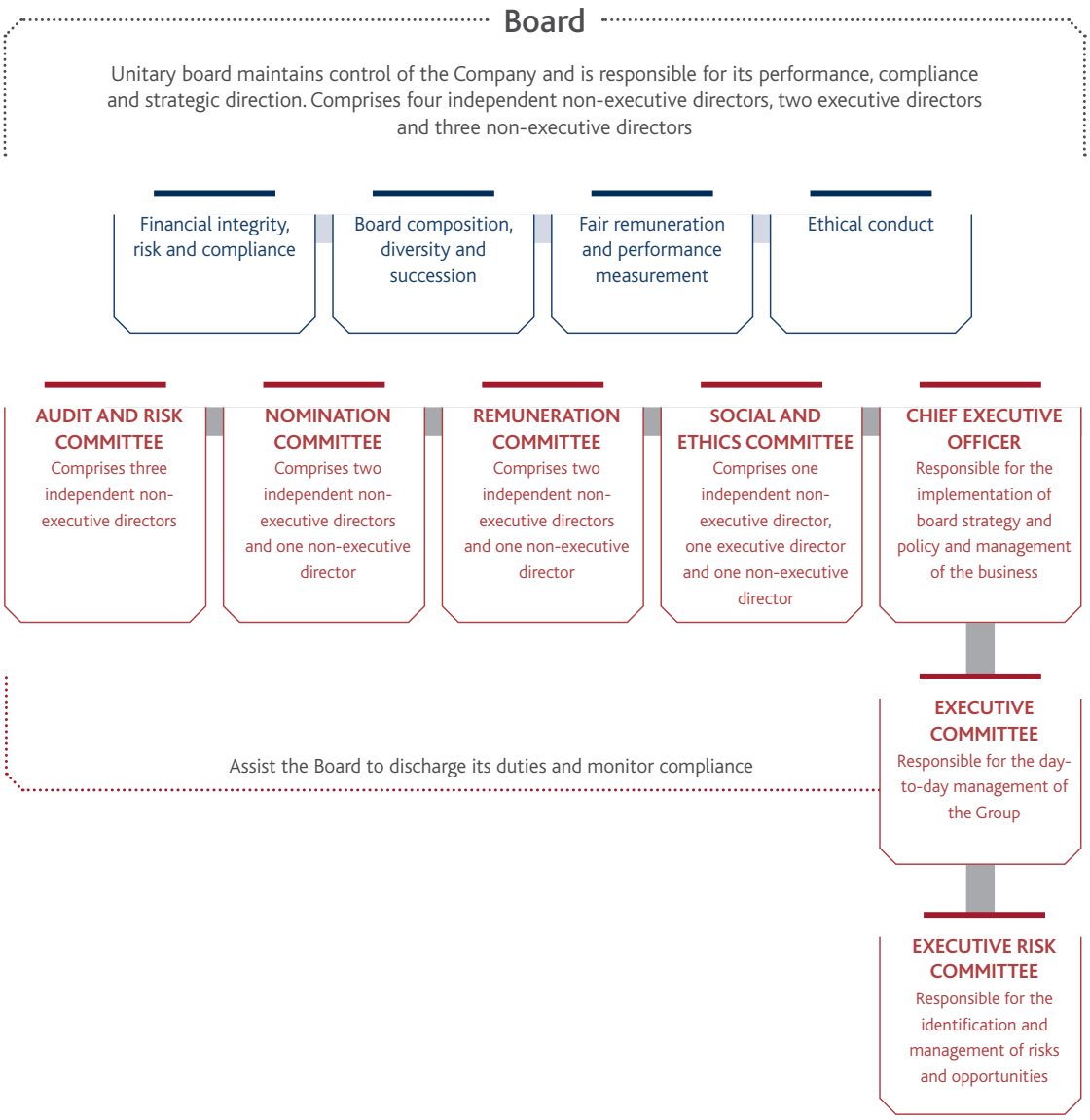
The following changes in board composition occurred subsequent to year end:

- John Copelyn stepped down as Chairman and non-executive director on 31 May 2019
- Marcel von Aulock, the CEO of THL, took on the role of Chairman on 1 June 2019
- Rob Nicolella stepped down as CEO on 31 May 2019, but remains on the Board as a non-executive director
- Mara de Lima, who has been the CFO of Hospitality for the past two years was appointed as CEO on 1 June 2019
- Riaan Erasmus, the prior acting CFO of Hospitality and recent group Treasurer managing the debt portfolio for both Tsogo and Hospitality, was appointed as CFO to replace Mrs de Lima
- Mohamed Ahmed, an existing board member, assumed the role of lead independent non-executive director and Chairman of the audit and risk committee on 1 June 2019
- Sydney Halliday, Mac Gani and Gerald Nelson resigned as independent non-executive directors on 31 May 2019
- Zibusiso Kganyago resigned as a non-executive director on 31 May 2019
- Moretlo Molefi, Jabu Ngcobo and Chris Gina were appointed as independent non-executive directors on 1 June 2019

Corporate governance continued

The Board has constituted the following committees, to which it has delegated certain group responsibilities, as defined in their respective approved terms of reference. The Board retains accountability for the execution of their responsibilities, even when these are delegated.

Group governance framework, following the reconstitution of the Board on 1 June 2019*



Board and committee meeting attendance

For the period 1 April 2018 to 31 March 2019	Board	Audit and risk committee	Social and ethics committee	Remuneration committee	Nomination committee	Independent acquisition committee
Number of meetings held	8	4	2	2	1	11
Non-executive						
ZJ Kganyago	8					
J Booysen[2]	6			2	1	
L McDonald	8					
JA Copelyn	8			2	1	
MN von Aulock[1]	2					
Independent non-executive						
DG Bowden	7	4		2		8
ZN Kubukeli	6		2	2	1	11
GA Nelson	6		1			8
SA Halliday	8	4			1	11
ZN Malinga[5]	5	2		2		11
Executive						
KG Randall[6]	6	3	2	1	1	
M de Lima	8	4	2	1		
JR Nicolella[7]	8					
Other						
R Huddy		4	2			
MSI Gani[3]	7	4				
MH Ahmed[4]	5					

[1] *Appointed 1 December 2018.*
[2] *Resigned 1 December 2018.*
[3] *Appointed 1 May 2018.*
[4] *Appointed 14 August 2018.*
[5] *Resigned 18 October 2018.*
[6] *Resigned as CEO 1 November 2018.*
[7] *Appointed as CEO 1 November 2018.*

Remuneration committee

Members to 31 March 2019
Mohamed Ahmed (Chairman)
Don Bowden[1]
Johnny Copelyn
Zuko Kubukeli[1]
Marcel von Aulock

Meeting attendance as set out above.

[1] *Resigned from the Board and the committee on 15 March 2019.*

The remuneration committee is chaired by an independent non-executive director. The committee oversees the setting and implementation of the remuneration policy for the Group and ensures that the policy and remuneration implementation report are tabled every year to shareholders at the Company's AGM for separate non-binding advisory votes.

The committee recommends to the Board the remuneration and incentivisation of the Company's directors; evaluates the performance of the executive directors; and sets their annual key performance indicators.

The committee meets at least twice a year. Ad hoc meetings are held to consider special business, as required. The CEO and CFO attend meetings of the remuneration committee, or part thereof, by invitation if required to contribute pertinent insights and information.

The remuneration policy and remuneration implementation report can be found on page 48.

The Board is satisfied that the committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period under review.

The reconstituted remuneration committee at 1 June 2019 comprise Mohamed Ahmed (Chairman), Jabu Ngcobo and Marcel von Aulock.

Key focus area addressed during the 2019 financial year	Key focus areas for the 2020 financial year
• Implementing the share appreciation bonus scheme • Benchmarking of non-executive directors' fees	• Perform detailed reviews of the terms of reference and the remuneration policy against good governance practices and market trends

Corporate governance continued

Audit and risk committee

Members to 31 March 2019
Mac Gani (Chairman)
Mohamed Ahmed[1]
Don Bowden[2]
Syd Halliday

See meeting attendance schedule on page 37.

[1] *Appointed on 15 March 2019.*
[2] *Resigned on 15 March 2019.*

The audit and risk committee report can be found on page 54 of the consolidated annual financial statements for the year ended 31 March 2019.

The audit and risk committee comprised three independent non-executive directors at year end and is primarily responsible for:
- Providing independent oversight of the effectiveness of the Company's assurance functions and services
- Developing a risk management policy and monitoring its implementation
- Ensuring that the Group's financial performance is properly reported on and monitored, including reviewing the annual and interim accounts, results announcements, integrated annual reporting process, internal control systems and procedures, and accounting policies
- Appointing and assessing the performance of the internal auditor for the necessary skills and resources to address the complexity and volume of risks faced by the Company
- Reviewing insurance, treasury and taxation matters
- Carrying out its statutory duties as set out in section 90 of the Companies Act
- Ensuring that appropriate financial reporting procedures have been established and are operating
- Satisfying itself of the expertise and experience of the CFO and the Fund's finance function as set out on page 54 of the consolidated annual financial statements for the year ended 31 March 2019
- Considering the effectiveness of the internal financial controls as well as the external and internal audit functions
- Ensuring that an effective risk management process is in place to identify and monitor the management of key risks and opportunities
- Making recommendations to shareholders regarding the appointment or reappointment of the independent external auditor, following an evaluation and assessment of the external auditor and the designated audit partner, the suitability for such appointment and independence of the external auditor and audit partner
- Approving non-audit services
- Approving accounting policies

The reconstituted audit and risk committee at 1 June 2019 comprise Mohamed Ahmed (Chairman), Jabu Ngcobo and Moretlo Molefi.

The Board has concluded that the audit and risk committee members during the period under review, had the necessary financial literacy, skills and experience to execute their duties effectively and make worthwhile contributions to the audit and risk committee's deliberations. The Board recommends the members of the reconstituted audit and risk committee for appointment at the AGM to be held on 17 October 2019.

The audit and risk committee has considered and satisfied itself as to the appropriateness of the expertise and experience of the Chief Financial Officer, Mara de Lima, at year end and the newly appointed Chief Financial Officer, Riaan Erasmus.

The audit and risk committee has also:
(i) Confirmed that Hospitality has established financial reporting procedures and that those procedures are operating adequately
(ii) Monitored compliance with the Group's risk management policy and confirmed that Hospitality has complied, in all material aspects, with the policy

Non-audit services approved throughout the year include mainly the issue of statutory certificates in terms of Hospitality's loan agreements and reporting accountant work undertaken for the purpose of the proposed transaction by which Hospitality was to acquire seven casino precinct properties from Tsogo Sun, which transaction did subsequently not proceed.

The audit and risk committee meets at least quarterly. Ad hoc meetings are held to consider special business, as required. The CEO, CFO, external auditor, internal auditor, Tsogo Sun's Chief Financial Officer and director of risk, attend all meetings of the audit and risk committee by invitation in order to contribute pertinent insights and information.

The Board is satisfied that the audit and risk committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Key focus area addressed during the 2019 financial year	Key focus areas for the 2020 financial year
• Ensured the appropriate accounting for new acquisitions • Expanded the internal audit process • Oversaw the of adoption of new IFRS accounting statements	• Overseeing the adoption of new IFRS accounting statements • Overseeing the adoption of REIT best practice recommendations

Social and ethics committee

Members to 31 March 2019
Gerald Nelson (acting Chairman)
Zuko Kubukeli[1]
Rob Nicolella
Keith Randall[2]
Rob Huddy

See meeting attendance schedule on page 37.

[1] *Resigned on 15 March 2019.*
[2] *Resigned on 1 November 2018.*

The social and ethics committee operated in line with an approved terms of reference. The social and ethics committee oversees and reports on the following areas:

- The Group's organisational ethics in line with the Group's adopted code of conduct and ethics policies
- Responsible corporate citizenship, including the promotion of equality, the prevention of unfair discrimination, the environment, health and public safety, including the impact of the Company's activities and of its products or services
- Sustainable development
- Stakeholder relationships

The social and ethics committee draws to the attention of the Board matters within its mandate as required and reports to shareholders at the Company's AGM.

The social and ethics committee meets a minimum of twice a year. Ad hoc meetings are held to consider special business, as required.
The report of the social and ethics committee can be found on page 46.

The Board is satisfied that the committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Key focus area addressed during the 2019 financial year	Key focus areas for the 2020 financial year
• Assessed and monitored Hospitality's B-BBEE rating under the revised codes of good practice. Hospitality will continue to be rated under the Tsogo Hotels group under the Tourism Charter	• Ensuring that stakeholder engagement is appropriate for the size and nature of the organisation

The reconstituted social and ethics committee at 1 June 2019 comprise Chris Gina (Chairman), Mara de Lima and Laurelle McDonald.

Nomination committee

Members to 31 March 2019
John Copelyn (Chairman)
Syd Halliday
Zuko Kubukeli[1]
Gerald Nelson
Marcel von Aulock

See meeting attendance schedule on page 37.

[1] *Resigned 15 March 2019.*

The nomination committee ensures that the Board has the appropriate composition and balance of skills for it to execute its duties effectively. It ensures that the appointment of directors is transparent and made through a formal process, which includes the identification and evaluation of potential candidates for appointment to the Board. The nomination committee considers and applies the Company's approved policy of gender and race diversity in the nomination and appointment of directors.

The nomination committee is responsible for induction and ongoing training and development of directors and succession planning. The nomination committee meets at least once a year. Ad hoc meetings are held to consider special business, as required. The CEO attends meetings of the nomination committee, or part thereof, by invitation if required to contribute pertinent insights and information.

The Board is satisfied that the nomination committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

The reconstituted nomination committee at 1 June 2019 comprise Marcel von Aulock (Chairman), Chris Gina and Moretlo Molefi.

Key focus area addressed during the 2019 financial year	Key focus areas for the 2020 financial year
• Although it had been a key focus area, due to the changes in board and committee composition, the Board did not undergo an independent evaluation prior to year end	• Ensuring the performance of an internal evaluation of the Board and its committees, assessing the outcome and reporting thereon to shareholders in the FY2020 integrated annual report

Corporate governance continued

Independent acquisition committee

Members to 31 March 2019
Gerald Nelson (Chairman)
Don Bowden
Syd Halliday
Zuko Kubukeli
Zola Malinga[1]

See meeting attendance schedule on page 37.

[1] *Resigned 18 October 2018.*

The independent acquisition committee was established to deal with related-party transactions. The independent acquisition committee is chaired by the lead independent non-executive director.

Ad hoc meetings were held to consider business as required. The CEO and CFO attended meetings of the independent acquisition committee, or part thereof, by invitation if required to contribute pertinent insights and information.

The Board was satisfied that the independent acquisition committee had fulfilled its responsibilities in accordance with its terms of reference for the reporting period under review.

It is not within the Fund's strategy to conclude large related-party transactions in the short to medium term and as a result an independent acquisition committee will not be required going forward.

Key focus area addressed during the 2019 financial year

- Considered and approved for recommendation to shareholders, the acquisition of seven casino precincts from Tsogo Sun

Board effectiveness

The Company Secretary is responsible for the statutory administration of the Group and ensures compliance and provides the Board with guidance on all regulations and governance codes and policies.

The Company Secretary is not a director of the Company and ensures that board and committee processes and procedures are implemented.

Directors have unrestricted access to the advice and services of the Company Secretary. The Board is satisfied that an arm's-length relationship exists between the Board of directors, the executive team, individual directors and the Company Secretary.

The Company Secretary of the Group is LR van Onselen (Diploma (Law), Certificate (Advanced Corporate Law and Securities) and CIS (Management and Admin)), being the appointed representative of HPF Management Proprietary Limited. The Board is satisfied that the Company Secretary is competent and has the appropriate qualifications and experience required by the Group.

Risk and opportunity

The Company treats risk as integral to the way it makes decisions and executes its duties. The Group's risk governance encompasses both the opportunities and associated risks in developing strategy and the potential positive and negative effects of such risks on the achievement of its organisational objectives. While the Board exercises ongoing oversight of risk management, the Group's risk governance function is delegated to the audit and risk committee, with the responsibility for implementing and executing effective risk management delegated to management.

The Group's risk management process identifies and analyses group risks, sets appropriate limits and controls and monitors risks and adherence to limits. The risk management policy is in accordance with industry practice and specifically prohibits the Company from entering into any derivative transactions that are not in the normal course of Hospitality's business. The directors have overall responsibility for the Group's internal control and for reviewing its effectiveness. The controls identify and manage group risks rather than completely eliminating failure.

Therefore, internal controls provide reasonable, but not absolute, assurance against material misstatement or loss. The implementation and operation of these systems is the responsibility of management and processes are communicated regularly to employees informing them of their responsibilities.

Systems include strategic planning, appropriate levels of authority, segregation of duties, appointing qualified staff, regular reporting and monitoring of performance and effective control over Hospitality's investments.

Risks and opportunities are reviewed by the internal risk committee at least annually and presented to the audit and risk committee for review and allows for risks to be identified and opportunities to be prioritised according to their potential impact on the Group.

Responses are designed and implemented to counter the effect of the risks and to take advantage of the opportunities. Significant risks identified are communicated to the Board, together with the recommended actions.

The Group's internal audit function is performed by a professional firm that

reports directly to the CFO and the Chairman of the audit and risk committee. Internal audit forms part of the combined assurance framework. The internal auditor carries out control-based audits, based on the annual internal audit plan as required by the external auditor and as approved by the audit and risk committee. The focus of internal audit in the past financial year has been on payroll and internal financial controls.

The audit and risk committee also examines and discusses with the internal auditor the appropriateness of internal controls. The audit and risk committee is satisfied with the internal audit function and that internal audit has the necessary skills and resources to address the complexity and volume of risks faced by the organisation and will continuously evaluate and review the Group's internal audit function, which is at this stage appropriate for the size and activities of the Group.

Hospitality's material risk and opportunities are set out on page 22.

IT governance

The Board is accountable for IT governance. Being part of the Tsogo Sun group, a decision was taken by the Board to leverage the IT support and governance from the Tsogo Sun group's central IT department. The IT governance charter was updated during the year and takes into account the requirements of King IV, globally accepted standards and good practice, together with the performance and sustainability objectives of the Group.

During the year, the central IT department's focus areas within Hospitality were:

- Strengthening relationships with key business functions and third-party service providers
- Evaluating emerging trends and potentially disruptive technologies
- Completing a data classification exercise to assist with compliance objectives
- Upgrading operating systems, databases and applications

Although the IT function has been outsourced to a central IT department, the CEO is responsible for the ownership and execution of IT governance.

The key IT risks are integrated into the enterprise-wide risk governance and management process. Independent IT assurance reviews are conducted annually to ensure governance and policies are adhered to, laws are complied with and data is secure and protected. No major incidents occurred during the year which required remedial action and the Board is satisfied with the effectiveness of IT governance.

Compliance

The Board is confident that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period and that the Group has established an effective framework and processes for compliance with laws, codes, rules and standards. No material contraventions were reported during the year under review.

Appraisal rights

On 12 June 2019, the High Court, subsequent to a lengthy legal process, granted the request by Standard Bank Nominees to be reinstated as a Hospitality shareholder and for dividends declared by the Company from February 2016 to date, to be paid to the reinstated shareholder.

The judgement was not appealed by Hospitality.

Governance of the hotel portfolio

The selection of an appropriate tenant, a hotel management company and a hotel brand best suited to a specific property, is crucial to providing a particular product, which is equipped to achieve optimum performance.

In this regard, Hospitality only contracts with reputable and reliable partners. New lease agreements and any variation to such existing agreements are proposed to the Board for consideration and approval. The nature of the agreements entered into between the parties include the calculation of fixed and variable rentals that are based on the actual performance of the properties and align the interests of the parties. Specific performance clauses are included based on actual performance to budget. A detailed budget process is followed with each hotel annually.

The hotel management companies are representatives of the tenants and take on the full operational responsibilities of the hotels. They operate within defined limits of authority and report monthly and quarterly to Hospitality management on operations, performance, marketing and strategy.

These reports are analysed by Hospitality management and properties are individually compared against STR nodal performance benchmarks. Hospitality has representation on the boards of Ash Brook Investments Proprietary Limited, the tenant of Radisson Blu Gautrain and Vexicure Proprietary Limited, the tenant of The Westin Cape Town. Hospitality is also represented on the body corporates of Kopanong Hotel and Conference Centre, Protea Hotel Victoria Junction and Radisson Blu Waterfront, the Arabella Home Owners Association and Champagne Share Block Limited.

Corporate governance continued

The Board at 1 June 2019*^

Executive directors

Non-executive directors

Independent non-executive directors

** Refer to page 35 of the governance report for detailed information on the changes in the Board's composition from 1 April 2018 up to 1 June 2019.*
^ Summarised curriculum vitae can be found on pages 101 to 103 of the AGM notice and on Hospitality's website on http://hpf.co.za/governance.

From left to right:

Mara Raquel Dos Santos de Lima (41)

Chief Executive Officer
CA(SA)
Appointed: 30 September 2016

Riaan Erasmus (35)

Chief Financial Officer
CA(SA)
Appointed: 1 June 2019

From left to right:

Marcel Nikolaus von Aulock (45)

Chairman, non-executive director
CA(SA)
Appointed: 1 December 2018

Laurelle McDonald (36)

Non-executive director
CA(SA)
Appointed: 1 September 2016

James Robert (Rob) Nicolella (50)

Non-executive director
CA(SA), PLD
Appointed: 1 September 2016

Mohamed Haroun Ahmed (55)#

Lead independent non-executive director
BCom (Accounting)
Appointed: 14 August 2018

Jabulani Geffrey Ngcobo (68)

Independent non-executive director
Appointed: 1 June 2019

From left to right:

Lynette Moretla Molefi (50)

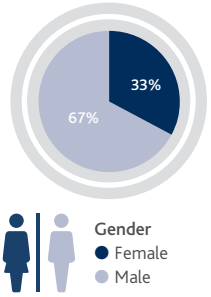
Independent non-executive director
Appointed: 1 June 2019

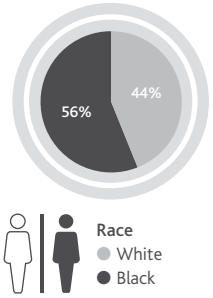
Sipho Christopher (Chris) Gina (60)

Independent non-executive director
Appointed: 1 June 2019

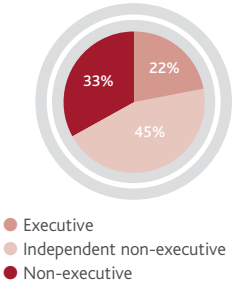
 # Photo not available.

Board gender and racial diversity
as at 1 June 2019





Board membership
as at 1 June 2019



Corporate governance continued

The Board at 31 March 2019*

Executive directors

Non-executive directors

Independent non-executive directors

** Refer to page 35 of the governance report for detailed information on the changes in the Board's composition from 1 April 2018 up to 31 March 2019.*

From left to right:

James Robert (Rob) Nicolella (50)

Chief Executive Officer
CA(SA), PLD
Appointed: 1 September 2016

Mara Raquel Dos Santos de Lima (41)

Chief Financial Officer
CA(SA)
Appointed: 30 September 2016

From left to right:

John Anthony Copelyn (68)

Chairman, non-executive director
BA (Hons), BProc
Appointed: 1 September 2016

Laurelle McDonald (36)

Non-executive director
CA(SA)
Appointed: 1 September 2016

From left to right:

Zibusiso Janice Kganyago (51)

Non-executive director
BCom (University of Natal)
Appointed: 1 September 2016

Marcel Nikolaus von Aulock (45)

Non-executive director
CA(SA)
Appointed: 1 December 2018

From left to right:

Gerald Alan Nelson (64)

Lead independent non-executive director
BSc Building (Wits)
Appointed: 25 May 2005

Mohamed Haroun Ahmed (55)#

Independent non-executive director
BCom (Accounting)
Appointed: 14 August 2018

From left to right:

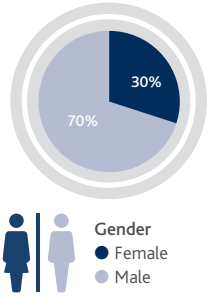
Sydney (Syd) Arnold Halliday (71)

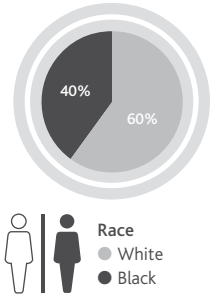
Independent non-executive director
CAIB(SA), ACIS
Appointed: 30 June 2013

Mahomed-Salim (Mac) Gani (65)

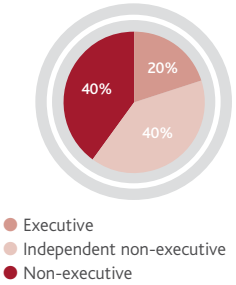
Independent non-executive director
CA(SA)
Appointed: 8 May 2018

Board gender and racial diversity
as at 31 March 2019





Board membership
as at 31 March 2019



 # Photo not available

Social and ethics committee review

In executing its duties and responsibilities, the social and ethics committee considers the monitoring factors contained in Regulation 43 of the Companies Act and the related internal controls in place.

Information on the committee's composition, its responsibilities and efforts can be found on page 39 of the report. During the period under review, the committee considered various initiatives, policies and procedures, business processes and business and stakeholder relationships that could impact its areas of focus, which include:

1	2	3	4	5	6	7
Ethics management, compliance and anti-corruption	Good corporate citizenship	Social and economic development	Environmental awareness	Monitoring of stakeholder relationships	Empowerment and transformation	Labour and employment

Hospitality endeavours to ensure that its ethical tone is shared and implemented by its contracted tenants and their representative hotel management companies. Hospitality does not tolerate any form of bribery or corruption. Whistle-blowing and anti-corruption procedures are in place and stakeholders are encouraged to report, if necessary, through anonymous and independently conducted ethics hotlines, the actions and individuals who compromise or threaten the Company's values, reputation and code of ethics. Investigations are carried out and findings reported, and disciplinary, civil or criminal action is taken as and when appropriate. A dedicated ethics hotline is in place at Hospitality's head office. This ethics hotline also serves Kopanong Hotel and Conference Centre, Birchwood Executive Hotel and OR Tambo Conference Centre. Each management company also has an ethics hotline in place for the hotel properties that it operates. The audit and risk committee provides an additional level of oversight to support the social and ethics committee in these matters.

No whistle-blowing incidents were reported to the head office ethics hotline during the period under review.

The Company aims to act responsibly and to contribute to the development of the societies in which it operates, whether it be by employing and training staff from the nearby communities, mentorships and sponsorship, donations or charitable giving, as follows:

- MCON, Hospitality's enterprise development project continues to operate at Arabella Hotel and Spa. MCON was established in 2013, to meet the requirement for clearing of alien vegetation on the Arabella Phase 2 site, in order to protect the biosphere and surrounding areas and to reduce the consumption of water by alien vegetation.
- Hospitality provided MCON with a five-year, interest-free enterprise development loan of R348 000 for company set-up costs, the purchase of a 4x4 vehicle, equipment, supplies and staff training. MCON's activities are monitored by Hospitality and ongoing support is provided in business management and finance. MCON employs staff members from the local communities.
- Hospitality focuses on developing its future leaders and providing basic hospitality skills. The Company continues to partner with Cape Legends Inter Hotel Challenge along with Showcook, to develop the talent of chefs and sommeliers in the hospitality industry. Hospitality awarded a bursary for the most promising chef in this challenge, in the form of an online management programme with the International Hotel School at a cost of R20 000.
- Hospitality was the driving force behind the donation of a 12-metre converted shipping container that has been divided into two much needed classrooms for Thandulwazi Day Care Centre in Orange Farm, Gauteng. The opening event coincided with Mandela Day on 18 July 2018.
- The Santa Shoebox project was Hospitality's corporate social investment initiative for the festive season of 2018, which includes the donation of gift boxes to underprivileged children.

The Group is an integral part of the community in which it operates and is committed to building sound relationships, based on trust, honesty and fairness. Not only is environmental compliance legally obligatory, but it is also an important component of the Group's commitment to the community and developing its good reputation. Hospitality therefore is dedicated to minimising the environmental impact of its activities on natural resources, having in prior years implemented various water and energy-saving programmes across its property portfolio. These include the installation of aerators in taps to reduce the consumption and the cost of water and the usage of grey water for irrigation purposes. The installation of LED globes and occupancy sensors has reduced the cost and usage of energy. Water-saving initiatives include the installation of a reverse osmosis plants, water filtration plants and the addition of water storage tanks at selected properties.

Usage of energy and natural resources is monitored and managed by the tenants and their hotel management companies. Healthy stakeholder relationships remain a vital contributor to the successful implementation of the Company's strategies and achievement of its objectives. Communication with its employees, shareholders and stakeholders is open and honest and without prejudice.

Communication is underpinned by the Group's code of ethics, code of conduct and disclosure of information policies.

Refer to the section on stakeholders on page 20 of this report.

The Group's employees are essential to its success and the Company is committed to treating them with dignity, trust and respect, and to build long-term relationships based on enforceable employment legislation and respect for human rights. An employee wellness programme is available free to staff for bereavement counselling, financial guidance, legal advice and mentoring.

The committee receives quarterly feedback on the status of Hospitality's B-BBEE strategy. The Company achieved a level 1 B-BBEE rating, due to the strong B-BBEE credentials of its majority shareholder. The committee reviews compliance at a hotel level with the B-BBEE Act, 53 of 2003, and the resultant achievement of suitable B-BBEE ratings, to maintain existing and secure new business.

The committee has executed its responsibilities as set out in the Companies Act and in accordance with its written terms of reference. During the reporting period, the committee is not aware of any material incidences of non-compliance with legislation and/or regulations.

StayEasy Century City

Remuneration policy and remuneration implementation report

Remuneration philosophy

The key goals of Hospitality's remuneration philosophy is to remunerate fairly, responsibly and competitively in order to:

- attract, reward and retain executive directors and staff of the requisite calibre, with the appropriate knowledge, attributes, skills and experience to allow them to add meaningful value to the Company;
- align the behaviour and performance of executive directors with the Company's strategic goals in the overall interests of shareholders and other stakeholders; and
- promote a culture that supports initiative and innovation, with appropriate short and long-term rewards that are fair and achievable.

Remuneration policy

Hospitality has aligned its grading philosophy and contracts of employment with that of its majority shareholder, Tsogo Sun.

Fair, responsible and transparent remuneration

Guaranteed pay	Short-term incentives	Long-term incentives
Basic cost to company ('CTC') *Median level for market*	*Annual* *Based on financial (60% to 80%) and key performance objectives (20% to 40%)*	*Three years vesting* *Aligned to shareholder returns*

The remuneration committee approves the fixed and variable mix of the remuneration structure, which differs based on the employee grade.

Basic salaries and a 13th cheque are guaranteed for employees other than executive directors and management, and the cost of benefits are shared between the employee and the employer on a 50:50 basis. Basic salaries for executive directors and management are guaranteed and are structured on a CTC basis.

Hospitality seeks to remunerate responsibly, fairly and transparently and seeks to achieve a balance of short-term and long-term incentives as part of a complete remuneration package that will motivate short-term returns and long-term value creation for shareholders.

The combination of these components ensures that above average pay is only received for above average performance and above average sustainable shareholder returns.

Short-term incentives ('STIs')

Executive directors and management participate in STIs, which are based on financial targets and personal key performance objectives in a range from 80:20 to 60:40, dependent on the employee grade. Executive directors have a larger portion of their potential total remuneration subject to the achievement of financial targets. In order to allow for financial elements over which executive directors and management could exercise direct control and to keep management motivated towards achieving improved returns for shareholders, the Board increased the number of financial targets from two to four. The two financial targets were an equal weighting between EBITDAR and distributable earnings. The financial targets have now been expanded to four and include EBITDAR, distributable earnings, operating expenditure and capital expenditure, weighted 30%, 30%, 15%, 25% respectively.

Key performance objectives, over which there is influence in order to ensure that the achievement of short-term financial performance is not at the expense of future opportunities, are agreed upfront annually between the STI participant and his or her immediate manager.

Long-term incentives ('LTIs')

The Hospitality Employee Incentive Trust ('the Trust') was implemented in 2013. The Trust is a share-based payment scheme, which is considered a share appreciation rights cash-settled scheme, based on the appreciation of the B share under the prior capital structure. Through the Trust, tranches of B shares amounting to 1 969 710 B shares were acquired in the open market at an average cost of R5.07 each and were allocated to beneficiaries of the Trust at the time, being the CEO, the CFO and members of management. The acquisition was funded by an interest-free loan from Hospitality Property Fund Limited, which loan is revalued annually based on the price of the B share at year end.

Following the capital restructure, the Trust owns 562 774 ordinary shares of no par value, of which 293 204 are allocated to management and employees.

No appreciation occurred between grant date and 30 September 2018, at which time the Trust terminated. The Trust is in the process of being wound up, which process includes the sale of its 562 774 shares in the open market and settling the loan balance owing to Hospitality, with the proceeds received from the sale.

Revised LTI

Hospitality has adopted a new share appreciation bonus scheme, based on Hospitality's existing capital structure:

- Notional shares are allocated annually to eligible employees as agreed by the Board. Each notional share confers the right on the holder to be paid a share appreciation bonus equal to the difference between the fair market value of the notional share on the date on which notice is given to surrender the notional share and the fair market value of the notional share on the date on which the offer was made to an eligible employee to participate in the scheme ('the allocation date').
- The notional shares will vest on the third anniversary of their allocation date and will lapse, and accordingly not be capable of surrender for payment of a share appreciation bonus upon the sixth anniversary of their allocation date.
- On settlement, the value accruing to participants will be the full appreciation of Hospitality's share price over the allocation price plus dividends declared and paid, post the allocation date of the notional shares (net of a notional corporate tax), which value will be settled in cash.
- LTI allocations are listed in the remuneration implementation report.

Prior to adopting the new Hospitality share appreciation bonus scheme, executive directors and management of Hospitality, according to their employee grade, participated in the Tsogo share appreciation bonus plan (FY2018), which provides for notional Tsogo shares which vest on the third anniversary of their allocation date and which will lapse by the sixth anniversary of their allocation date:

- On settlement, the value accruing to participants will be the full appreciation of Tsogo's share price over the allocation price plus dividends declared and paid post the allocation date of the notional shares, which value will be settled in cash.
- LTI allocations are listed in the remuneration implementation report.

The participants in the Tsogo Sun share appreciation bonus plan will be entitled, pursuant to the listing and unbundling of THL, to THL shares in the anticipated ratio of one THL share for every Tsogo Sun share held.

Remuneration implementation report

Executive directors' service contracts at 31 March 2019

The CEO is employed by Hosken Consolidated Investments Limited ('HCI'). HCI has seconded the services of the CEO to Hospitality, subject to a three months' notice period. The secondment agreement contains no restraint of trade clauses and has no specific contractual conditions related to termination. The CFO is a full-time salaried employee of HPF Management Proprietary Limited#, a wholly owned subsidiary of Hospitality. The CFO's employment contract is subject to a three months' notice period, it contains no restraint of trade clauses and has no specific contractual conditions related to termination.

Executive directors' service contracts at 1 June 2019

Following a reconstitution of the Board and the appointment of Hospitality's CFO as its CEO and the appointment of a new CFO, further details of which can be found on page 35 of this report, both the CEO and CFO are full-time salaried employees of HPF Properties Proprietary Limited#, a wholly owned subsidiary of Hospitality. Their employment contracts are subject to three months' notice periods, contain no restraint of trade clauses and have no specific contractual conditions related to termination.

 # Hospitality underwent an internal restructure effective 1 April 2019, in order to reduce administrative work and costs and to simplify the current structure. This will result in the liquidation of a number of Hospitality's subsidiaries, which includes HPF Management. Staff previously employed by this company were transferred to another wholly owned subsidiary, being HPF Properties Proprietary Limited. All terms of employment remained the same.

Non-executive directors' terms of appointment

Non-executive directors are not subject to any other fixed terms of employment other than the conditions contained in the Company's MOI and, as such, no service contracts have been entered into with the Company. Hospitality's remuneration for non-executive directors consists of either:

- a basic annual fee for board, audit and risk committee and social and ethics committee membership; and
- a per meeting attendance fee for members of the nomination and remuneration committee.

Non-executive directors' fees are approved in advance by shareholders by special resolution at the Company's AGM.

No share options or other incentive awards geared to share price or corporate performance are made to non-executive directors.

Directors' emoluments

	2019				2018		
	RJ Nicolella R'000	KG Randall R'000	MR de Lima R'000	Total R'000	KG Randall R'000	MR de Lima R'000	Total R'000
Salaries	542	2 548	1 654	4 744	2 479	1 514	3 993
Benefits	–	463	424	887	291	403	694
Current year STI accrued	–	1 439	862	2 301	449	323	772
Fair value of cash-based LTI on award date	–	698	174	872	687	382	1 069
Total single figure of remuneration	542	5 148	3 114	8 804	3 906	2 622	6 528
Fair value of cash-based LTI on award date	–	(698)	(174)	(872)	(687)	(382)	(1 069)
Settlement of cash-based LTI	–	370	62	432	1 198	244	1 442
Financial statement remuneration	542	4 820	3 002	8 364	4 417	2 484	6 901
Current year STI not settled	–	(1 439)	(862)	(2 301)	(449)	(323)	(772)
Prior year STI settled	–	449	323	772	165	395	560
Total cash equivalent value of remuneration	542	3 830	2 463	6 835	4 133	2 556	6 689

Achievement of STIs in FY2019	Financial score %	Strategic score %	Total score %	Bonus accrued R'000
KG Randall*	32	17	49	1 439
MR de Lima	30	23	53	862

** Upon his resignation as CEO on 1 November, KG Randall was appointed as the Chief Operating Officer. Being a member of key management, benefits are shown for the full financial year. RJ Nicolella served as the CEO of Hospitality from 1 November 2018 to 31 May 2019. He was seconded by HCI to Hospitality as set out in the remuneration implementation report. RJ Nicolella did not participate in the STIs or LTIs of the Company.*

STIs are paid in May each year.

Remuneration policy and remuneration implementation report
continued

LTI allocation in FY2019	Number of appreciation shares	Issue price	Market price at 31 March 2019	Shares vesting date
KG Randall	421 941	R11.85	R9.81	31 March 2021
MR de Lima	105 485	R11.85	R9.81	31 March 2021
HPF Management	274 262	R11.85	R9.81	31 March 2021

Grant date	Appreciation shares granted and still outstanding		Strike price[1]	Appreciation shares vested and still outstanding		Fair value of award on grant date[1]	Expiry date	Liability	
	2019	2018		2019	2018			2019	2018
Keith Randall									
1 April 2013	–	122 150		–	122 150	360 824	31 March 2019	–	680 376
1 April 2014	97 201	97 201		97 201	97 201	327 723	31 March 2020	352 840	350 896
1 April 2015	94 198	94 198		94 198	94 198	329 426	31 March 2021	180 860	178 976
1 April 2016	109 553	109 553		109 553	–	399 215	31 March 2022	518 186	343 996
1 April 2017	160 715	160 715		–	–	686 733	31 March 2023	–	–
1 April 2018	421 941	–		–	–	697 768	31 March 2024	–	–
								1 051 886	1 554 244
Mara de Lima									
1 April 2013	–	20 358		–	20 358	60 136	31 March 2019	–	113 394
1 April 2014	29 160	29 160		29 160	29 160	98 316	31 March 2020	105 851	105 268
1 April 2015	28 260	28 260		28 260	28 260	98 830	31 March 2021	54 259	53 694
1 April 2016	43 821	43 821		43 821	–	159 685	31 March 2022	207 273	137 598
1 April 2017	89 286	89 286		–	–	381 518	31 March 2023	–	–
1 April 2018	105 485	–		–	–	174 442	31 March 2024	–	–
								367 383	409 954

[1] *Calculated using a Black Scholes model at grant date as there are no performance conditions.*

LTIs are cash-settled, resulting in no dilutionary impact to shareholders. The notional appreciation shares issued to executive directors and management on 1 April 2018 are based on the Hospitality share price and the Hospitality share scheme. The notional appreciation shares are based on a three-year vesting period equivalent to a factor of their respective cost to company and the price is determined on the volume weighted average trading price of Hospitality's share (HPB) prior to the date of issue.

Refer to note 25 of the consolidated annual financial statements for further information.

Non-executive directors 2019

	Directors' fees R'000	Total R'000
JA Copelyn	407	407
DG Bowden[1]	359	359
ZN Malinga[1]	210	210
SA Halliday	366	366
GA Nelson	278	278
ZN Kubukeli[1]	291	291
MN von Aulock	64	64
J Booysen[1]	213	213
L McDonald	256	256
ZJ Kganyago	256	256
JR Nicolella	150	150
RB Huddy[2]	22	22
M Ahmed	166	166
MSI Gani	399	399
	3 437	3 437

Fees are exclusive of VAT.

[1] Resigned prior to 31 March 2019.
[2] Not part of directorate.

Non-executive directors' fees 2018

	Directors' fees R'000	Total R'000
JA Copelyn	378	378
L de Beer[1]	348	348
DG Bowden	355	355
ZN Malinga	352	352
SA Halliday	338	338
GA Nelson	296	296
ZN Kubukeli	307	307
WC Ross[1]	121	121
MN von Aulock[1]	127	127
J Booysen	134	134
L McDonald	242	242
ZJ Kganyago	242	242
JR Nicolella	242	242
RB Huddy[2]	41	41
	3 523	3 523

Fees are exclusive of VAT.

[1] Resigned prior to 31 March 2018.
[2] Not part of the directorate.

Voting results at the 2018 AGM

The results of the non-binding advisory endorsement of the Company's remuneration policy and remuneration implementation report at the AGM on 18 October 2018 were 95.07% (2017: 80.06%) and 98.10% (2017: 81.36%) in favour, respectively. In the event that the remuneration policy or remuneration implementation report, or both, are voted against by more than 25% of the votes cast at any AGM of the Company, the Group will engage with dissenting shareholders within 30 days of the AGM, to address all legitimate and reasonable objections and concerns.

Non-executive directors' fee for approval by shareholders

The increase in non-executive directors' fees for FY2019 was approved by shareholders at the 2018 AGM at a maximum of 12%, subject to board approval. The Board approved, on recommendation by the remuneration committee, an inflationary increase to all non-executive directors' fees for FY2019 of 6%.

Shareholders approved an hourly ad hoc fee of R1 995 for non-executive directors for special assignments or additional work requested by the Board. This fee is only payable if time in excess of 20 hours per non-executive director, per annum, is spent on any special assignment or additional work.

Radisson Blu, Waterfront Hotel

Radisson Blu, Waterfront Hotel

Hospitality
PROPERTY FUND

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Statement of responsibility by the Board of directors

for the year ended 31 March 2019

The Company's directors are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of the Company and the Group at the end of the financial year and of the results of operations and cash flows for the period. In preparing the accompanying annual financial statements, the JSE Listings Requirements together with the International Financial Reporting Standards ('IFRS') have been followed, suitable accounting policies have been used, applied consistently, and reasonable and prudent judgements and estimates have been made. Any changes to accounting policies are approved by the audit and risk committee and the effects thereof are fully explained in the annual financial statements. The annual financial statements incorporate full and responsible disclosure. The Board has oversight for the information included in the integrated annual report and is responsible for both its accuracy and its consistency with the annual financial statements.

The Board has reviewed the Group's budget and cash flow forecast for the year to 31 March 2020. On the basis of this review, and in light of the current financial position and existing borrowing facilities, the Board is satisfied that the Group is a going concern and they have accordingly adopted the going concern basis in preparing the annual financial statements. The Group's independent auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements and their unqualified report appears on pages 56 to 59. PricewaterhouseCoopers Inc. was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of directors and committees of the Board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The Board recognises and acknowledges its responsibility for the Group's systems of internal financial control. The Group's code of conduct, which covers ethical behaviour, compliance with legislation and sound accounting practice, underpins its internal financial control process. The control systems include written accounting and control policies and procedures, clearly defined lines of accountability and delegation of authority, and comprehensive financial reporting and analysis against approved budgets, which are approved by the Board.

The Board considers that the systems are appropriately designed to provide reasonable, but not absolute, assurance that assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded.

The effectiveness of the internal financial control systems is monitored by the Chief Executive Officer and Chief Financial Officer and through testing by internal auditors of appropriate aspects of the internal financial control systems during the course of their statutory examinations of the Company and the underlying subsidiaries.

Directors' approval of the annual financial statements

for the year ended 31 March 2019

The preparation of the financial statements set out on pages 55 to 99 have been supervised by the Chief Financial Officer, MR de Lima, CA(SA). These annual financial statements were approved by the Board of directors on 23 May 2019 and are signed on its behalf by:

JA Copelyn
Chairman

JR Nicolella
Chief Executive Officer

Declaration by the Company Secretary

In terms of section 88(2)(e) of the Companies Act, in my capacity as Company Secretary, I confirm that for the period ended 31 March 2019, Hospitality Property Fund Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices that are required by a public company in terms of the Companies Act and all such returns and notices are true, correct and up to date.

LR van Onselen
Company Secretary

23 May 2019

Report of the audit and risk committee

The audit and risk committee ('the committee') is pleased to submit its report in compliance with section 94(7)f of the Companies Act, 2008. The committee has fulfilled its duties in terms of its statutory obligations contained in the Companies Act, 2008, the JSE Listings Requirements, its terms of reference and the King IV Code on Corporate Governance™* in South Africa.

Statutory duties

The committee is satisfied that in respect of the financial year it has performed all the functions required by law to be performed by an audit and risk committee, including as set out in section 94 of the Companies Act of South Africa and in terms of the committee's terms of reference and as set out in the corporate governance report. In this connection, and with specific regard to the preparation of the annual financial statements, the committee has:

- evaluated the independence and effectiveness of the external auditors, PricewaterhouseCoopers Inc., and is satisfied that the external auditors are independent of the Group having given due consideration to the parameters enumerated under section 92 of the Companies Act of South Africa. The committee accordingly nominates PricewaterhouseCoopers Inc. as independent auditors to continue in office. AG Taylor is the individual registered auditor and member of the aforegoing firm who undertakes the audit. PricewaterhouseCoopers has been the auditor of the Group for three years, with the rotation of the designated audit partner during 2017 for the 2018 financial year end. AG Taylor replaced V Muguto on 19 February 2018 following V Muguto's voluntary removal from the JSE's list of accredited auditors;
- as required by paragraph 3.84(g)(iii) of the JSE Listings Requirements, the committee obtained the information listed in paragraph 22.15(h) for the purpose of the reappointment of the external auditor, PricewaterhouseCoopers Inc. ('PwC'), and satisfied itself that the external auditor and the audit partner, AG Taylor, have the necessary accreditation and are suitable for appointment;
- ensured and satisfied itself that the appointments of the external auditors, the designated auditor and IFRS adviser are in compliance with the Companies Act of South Africa, the Auditing Profession Act, 2005, and the Listings Requirements of the JSE;
- evaluated and is satisfied with the quality of the external audit and reports issued by the external auditors;
- considered and pre-approved all audit and non-audit services provided by the external auditors, ensuring that the independence of the external auditors is not compromised;
- reviewed and assessed the Group's risk identification, measurement and control systems and their implementation;
- reviewed and approved the Group accounting policies (refer note 1 to the annual financial statements);
- considered all significant transactions and accounting matters that occurred during the year and evaluated whether the accounting treatment is in terms of IFRS;
- considered the impact of auditing, regulatory and accounting developments during the year;
- evaluated and is satisfied with the implementation of the combined assurance framework and plan;
- evaluated and is satisfied with the effectiveness of the Chief Audit Executive and the outsourced internal audit function;
- reviewed the written assessment of internal audit on the design, implementation and effectiveness of the internal financial controls. Based on these results the committee is of the opinion that the internal financial controls provide reasonable assurance that financial records may be relied upon for the preparation of reliable annual financial statements; and
- dealt with concerns or complaints relating to accounting practices and internal audit of the Group, the content or auditing of the Group's financial statements, the internal financial controls of the Group, or any other related matter.

Evaluation of the expertise and experience of the Chief Financial Officer

The committee has also considered and satisfied itself of the appropriateness of the expertise and experience of the Financial Director, Mrs MR de Lima, and the finance function.

Recommendation of the annual financial statements and accounting policies to the Board for approval

The committee reviewed the accounting policies, judgements, estimates and content of the annual financial statements for the 2019 financial year. The committee is satisfied that they are adequate and appropriate and that the financial statements comply with International Financial Reporting Standards, the Companies Act, 2008 and the JSE Limited Listings Requirements. To this end the committee recommended the annual financial statements to the Board for approval.

MSI Gani
Chairman

23 May 2019

Directors' report

for the year ended 31 March 2019

1. Nature of business

The Company is a Real Estate Investment Trust ('REIT') listed on the JSE Limited ('JSE'). The Company is the only specialised REIT in South Africa investing in the hotel and leisure sector, providing investors with exposure to both the property and hospitality industries.

2. Share capital

There were no changes to the authorised and issued share capital during the year under review.

3. Dividends

The following ordinary dividends were declared during the financial year:
– An interim dividend of 41.22 cents was declared on 21 November 2018 and paid on 18 December 2018.
– A final dividend of 64.17 cents was declared on 23 May 2019 and will be paid on 18 June 2019.

4. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with within the financial statements that would affect the operations or results of the Company significantly.

The Fund settled corporate notes HPF08 and HPF09, which matured on 15 April 2019, of R80 million and R150 million respectively. A new corporate note for R300 million was issued (HPF12) and will mature in March 2024.

Subsequent to year end, on 23 May 2019, the Board of directors declared a final gross cash dividend from income reserves in respect of the year ended 31 March 2019 of 64.17 cents per share. The number of ordinary shares in issue at the date of this declaration was 575 214 177 (excluding appraisal right shares and HPF Employee Incentive Trust shares).

5. Holding company

The Company is owned by Southern Sun Hotels Proprietary Limited, which owns 59.2% of the Company's shares. The Company's ultimate holding company is Hosken Consolidated Investments Limited.

6. Directorate

The Board of directors comprised the following directors during the year:
- JA Copelyn^ (Chairman)
- GA Nelson# (Lead independent director)
- KG Randall (resigned 1 November 2018)
- MR de Lima (Chief Financial Officer)
- J Booysen^ (resigned 1 December 2018)
- DG Bowden# (resigned 15 March 2019)
- MSI Gani# (appointed 8 May 2018)
- SA Halliday#
- ZJ Kganyago^
- ZN Kubukeli# (resigned 15 March 2019)
- ZN Malinga# (resigned 18 October 2018)
- L McDonald^
- JR Nicolella (Chief Executive Officer – appointed 1 November 2018)
- M Ahmed# (appointed 14 August 2018)
- MN von Aulock^ (appointed 1 December 2018)

 # Independent non-executive director.
^ Non-executive director.

7. Subsidiary companies

Information relating to the Company's interest in its subsidiaries is detailed in note 24.

8. Associate companies

Information relating to the Company's interest in its associates is detailed in note 7.

9. External auditors

PricewaterhouseCoopers Inc. were the Company's external auditors during the year and will continue in office in accordance with section 90 of the Companies Act, as amended.

10. Company Secretary

The Company Secretary is HPF Management Proprietary Limited (registration number: 2009/021472/07). The appointed representative of HPF Management Proprietary Limited is LR van Onselen. The business and registered office is:
The Zone II, Lofts East Wing, 2nd Floor
Corner Oxford Road and Tyrwhitt Avenue
Rosebank
2196

Independent auditor's report

To the shareholders of Hospitality Property Fund Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hospitality Property Fund Limited ('the Company') and its subsidiaries (together 'the Group') as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Hospitality Property Fund Limited's consolidated financial statements set out on pages 60 to 90 comprise:

- the consolidated statement of financial position as at 31 March 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors ('IRBA Code') and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

Our audit approach

Overview

Overall group materiality
R29 million, which represents 5% of adjusted consolidated profit before tax.

Group audit scope
The Group consists of 11 companies, which include 53 hotels owned by four operating subsidiaries.

We performed full scope audits on all companies in the Group.

Key audit matters
Valuation of investment properties at year end of R12 billion.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R29 million
How we determined it	5% of adjusted consolidated profit before tax
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark, because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We have adjusted profit before tax for non-cash flow items as this best represents the Funds From Operations ('FFO') as defined by the National Association of Real Estate Investment Trusts ('NAREIT'). The consolidated profit before tax was adjusted for the revaluation of investment properties (R788 million), derivative financial instruments (R6 million) and the straight-lining adjustment relating to retail leases (R155 000). We chose 5%, which is consistent with quantitative materiality thresholds for profit-oriented companies in this sector.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Due to statutory audit requirements, we performed full scope audits on all companies in the Group. The Group owns 53 hotels. Revenue earned by the Group is split between fixed and variable rental income. As part of our audit, we scoped in all 53 hotels in the four operating subsidiaries of the Group, based on their contribution to the Group revenue.

In establishing the overall approach to the Group audit, we determined the type of work to be performed by us as the Group engagement team as well as the component auditors. Where component auditors performed the work, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

By performing the procedures outlined above, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties at year end of R12 billion The majority of the Group's investment properties comprise hotel properties. At 31 March 2019, the carrying value of the Group's total investment property portfolio was R12 024 million representing a R510 million decrease compared to the prior year (refer to note 4 of the consolidated financial statements). This overall decrease comprises a decrease in the fair value of the hotel properties of R788 million offset by an increase of R212 million in capital expenditure capitalised, and a R66 million increase due to the Kopanong property no longer being classified as held for sale and now included as part of investment property. No acquisitions were recorded in the 2019 financial year. The Group's accounting policy is to measure investment properties at fair value using the discounted cash flow approach. The value of investment properties is dependent on the operating results of the respective hotel operations and the inputs into the valuation model. Factors such as prevailing market conditions and country-specific risks directly impact fair values, and are taken into account in calculation of the discount rate by use of a risk premium. Among others, the following assumptions are key in determining the fair value: - the discount rate applied by management; - net cash flows for the first five years; and - the expected growth rate from year 5 onwards, which drives the exit capital rate. The valuation accounting policy applied during the year requires properties to be externally valued by a qualified real estate appraiser ('the appraiser'). In the current year R11 921 million of the balance was valued by external valuers which represents 99.14% of the total fair value of investment properties at year end. We considered the valuation of the investment properties to be a matter of most significance to our current year audit due to the following: - significant judgements made by management (through the use of their management expert) in determining the net cash flows, exit capitalisation and discount rates; and - the magnitude of the balance of the investment properties recorded in the consolidated balance sheet at 31 March 2019.	We tested capital expenditure incurred and capitalised on existing investment properties, by agreeing the consideration amounts capitalised to supporting documents, in order to determine whether the capitalisation criteria had appropriately been met. No exceptions were noted. We updated our understanding of and tested the relevant controls related to the budgeting process, which included controls in relation to the following: - the entering and amending of leases in support of contractual rental income; - the setting and approval of budgets by the Group; and - board approval of the valuations obtained. In respect of the appraiser (management's expert), we: - considered his objectivity, independence and expertise by inspecting the external appraiser's valuation reports for a statement of independence and compliance with generally accepted valuation standards; and - confirmed the external appraiser's affiliation with the relevant professional body. No exceptions were noted in the above procedures performed. We performed the following procedures on a representative sample of the population: - we assessed the reasonableness of the cash flows relating to each selected hotel operation against prior year actual results; and - we assessed the cash flows for reasonability. For all of the externally valued properties, we independently tested the calculation of the fair values in the appraiser's valuation reports by performing the following procedures: - utilising our internal property valuation expertise, we assessed the appropriateness of the valuation methodology used; - we assessed the reasonableness of the growth, exit capitalisation and discount rates used in the valuations by independently calculating a range of rates which would be considered reasonable; - we independently recalculated the valuations for mathematical accuracy; and - we agreed the fair values in the final valuation reports to the fair values recorded in the Group's accounting records. For purposes of presentation and disclosure, we performed the following procedures: - agreed the movement in investment properties balance to the results of the detailed testing performed as noted above; - agreed the assumptions disclosed in note 4 to the assumptions used in the detailed valuation workings; and - reperformed the sensitivity analysis disclosed in the above note. No exceptions were noted in the above procedures performed.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Hospitality Property Fund Limited's Consolidated Annual Financial Statements for the year ended 31 March 2019 and the Hospitality Property Fund Limited's Company Annual Financial Statements for the year ended 31 March 2019, which includes the Directors' Report, the Report of the Audit and Risk Committee and the Declaration by the Company Secretary, as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the Hospitality Property Fund Limited Integrated Report for the year ended 31 March 2019, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Hospitality Property Fund Limited for three years.

PricewaterhouseCoopers Inc.
Director: A Taylor
Registered Auditor

Johannesburg

23 May 2019

Consolidated statement of financial position

as at 31 March

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-current assets			
Investment properties	4	**12 023 914**	12 533 970
Furniture, fittings and equipment	6	**337**	163
Investments in associates	7	**771**	751
Derivative asset	26.1	**1 783**	–
		12 026 805	12 534 884
Current assets			
Receivables and cash		**239 792**	524 506
Trade and other receivables		**144 510**	133 915
Cash and cash equivalents		**95 282**	390 591
Non-current assets held for sale		**–**	65 600
		239 792	590 106
Total assets		**12 266 597**	13 124 990
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Stated capital	10	**9 027 065**	9 027 065
Non-distributable reserve	11	**1 957 968**	2 739 443
Common control reserve		**(1 106 013)**	(1 106 013)
Retained earnings		**343 035**	444 108
		10 222 055	11 104 603
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings	12	**1 647 358**	1 936 071
Derivative liability	26.1	**1 971**	4 042
Long-term incentive liabilities non-current portion	25	**446**	1 483
		1 649 775	1 941 596
Current liabilities			
Trade and other payables	13	**79 219**	51 919
Interest-bearing borrowings	12	**290 000**	–
Derivative liability	26.1	**–**	2 241
Long-term incentive liabilities current portion	25	**1 419**	502
Provision for shareholder redemption	10	**24 129**	24 129
		394 767	78 791
Total liabilities		**2 044 542**	2 020 387
Total equity and liabilities		**12 266 597**	13 124 990

The accounting policies and notes on pages 64 to 90 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 March

	Notes	2019 R'000	2018 R'000
Revenue	14	**827 786**	866 917
Rental income – contractual		**827 631**	866 501
Rental income – straight-line accrual		**155**	416
Operating expenses	17	**(76 096)**	(46 555)
Operating profit		**751 690**	820 362
Other income		**1 767**	–
Insurance proceeds		**655**	–
Sundry income		**1 112**	–
Net finance costs		**(166 988)**	(164 063)
Finance income	18	**17 206**	27 706
Finance costs	18	**(184 194)**	(191 769)
Profit before sale of fixed assets, fair value adjustments, equity accounted profit and taxation		**586 469**	656 299
Profit on sale of furniture, fittings and equipment	6	**–**	109
Fair value adjustments	19	**(781 475)**	(542 931)
Investment properties, before straight-lining adjustment		**(787 414)**	(537 144)
Change in fair value as a result of the straight-lining adjustment		**(155)**	(416)
Interest rate swaps		**6 094**	(5 371)
(Loss)/profit before taxation		**(195 006)**	113 477
Equity-accounted profit from associate net of tax	7	**720**	274
Income tax expense	20	**191**	–
(Loss)/profit for the year		**(194 095)**	113 751
Other comprehensive income			
Items that may not be reclassified subsequently to profit or loss:			
– Fair value adjustment of the properties acquired under common control		**–**	2 388 848
Total comprehensive (loss)/income		**(194 095)**	2 502 599
(Loss)/profit attributable to:			
– Equity holders		**(194 095)**	113 751
– Non-controlling interests		**–**	–
Other comprehensive income attributable to:			
– Equity holders		**–**	2 388 848
– Non-controlling interests		**–**	–
Earnings and diluted earnings per share (cents)	15	**(33.74)**	22.97

The notes on pages 64 to 90 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 March

	Attributable to equity holders of the Company					
	Share capital R'000	Treasury share reserve R'000	Retained income R'000	Common control reserve R'000	Non-distributable reserve R'000	Total R'000
Balance at 1 April 2017	5 575 253	(9 995)	138 719	–	893 526	6 597 503
Total comprehensive income for the year	–	–	2 502 599	–	–	2 502 599
Transaction costs (Tsogo transaction)	(5 256)	–	–	–	–	(5 256)
Issue of no par value ordinary shares	3 467 063	–	–	–	–	3 467 063
Dividend declared on 24 May 2017	–	–	(147 192)	–	–	(147 192)
Dividend declared on 9 June 2017	–	–	(48 312)	–	–	(48 312)
Dividend declared on 22 November 2017	–	–	(155 789)	–	–	(155 789)
Common control reserve	–	–	–	(1 106 013)	–	(1 106 013)
Transfer to fair value reserves – investment properties	–	–	(1 851 288)	–	1 851 288	–
Transfer to fair value reserves – interest rate swaps	–	–	5 371	–	(5 371)	–
Balance at 31 March 2018	9 037 060	(9 995)	444 108	(1 106 013)	2 739 443	11 104 603
Total comprehensive income for the year	**–**	**–**	**(194 095)**	**–**	**–**	**(194 095)**
Dividend declared on 23 May 2018	**–**	**–**	**(451 330)**	**–**	**–**	**(451 330)**
Dividend declared on 21 November 2018	**–**	**–**	**(237 123)**	**–**	**–**	**(237 123)**
Transfer to fair value reserves – investment properties	**–**	**–**	**787 569**	**–**	**(787 569)**	**–**
Transfer to fair value reserves – interest rate swaps	**–**	**–**	**(6 094)**	**–**	**6 094**	**–**
Balance at 31 March 2019	**9 037 060**	**(9 995)**	**343 035**	**(1 106 013)**	**1 957 968**	**10 222 055**
Notes	10	10			11	

The accounting policies and notes on pages 64 to 90 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 March

	Notes	2019 R'000	2018 R'000
Cash flows from operating activities			
Cash generated from operations	22	771 480	725 127
Finance income received	18	17 206	27 706
Finance costs paid	18	(184 194)	(191 769)
Dividends paid to shareholders		(688 453)	(351 293)
Net cash (utilised)/generated from operating activities		(83 961)	209 771
Cash flows from investment activities			
Proceeds from disposal of furniture, fittings and equipment		–	109
Acquisition and development of investment properties	4	(211 992)	(416 873)
Proceeds from disposal of investment property	4	234	–
Proceeds from disposal of non-current assets held for sale	5	–	911
Acquisition of furniture, fittings and equipment	6	(290)	–
Cash acquired as part of acquisition of subsidiary		–	202 640
Acquisition of subsidiary		–	(1 030 000)
Dividends received from associate	7	700	–
Net cash utilised for investment activities		(211 348)	(1 243 213)
Cash flows from financing activities			
Interest-bearing liabilities raised		100 000	1 928 935
Interest-bearing liabilities repaid		(100 000)	(1 709 700)
Cash proceeds from rights issue		–	1 000 000
Transaction costs		–	(5 256)
Net cash inflow from financing activities		–	1 213 979
Net (decrease)/increase in cash and cash equivalents		(295 309)	180 537
Cash and cash equivalents at the beginning of the year		390 591	210 054
Cash and cash equivalents at the end of the year	9	95 282	390 591

The accounting policies and notes on pages 64 to 90 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies

The significant accounting policies adopted in the preparation of the consolidated annual financial statements and Company annual financial statements are set out on the following pages. These policies have been consistently applied to all the periods presented unless otherwise stated.

1.1 Basis of preparation

The consolidated annual financial statements have been prepared in accordance with the framework concepts and the recognition and measurement criteria of IFRS as issued by the International Accounting Standards Board ('IASB'), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council ('FRSC'), the Listings Requirements of the JSE and the Companies Act of South Africa, and have been prepared under the historical cost convention, as modified by the revaluation to fair value of certain financial instruments and investment properties as described in the accounting policies below. The term IFRS includes International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') or the former Standing Interpretations Committee ('SIC'). The standards referred to are set by the IASB.

The financial statements are presented in Rand and are rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

1.2 Changes in accounting policies

The Group has adopted all the new, revised or amended accounting pronouncements as issued by the International Accounting Standards Board ('IASB') which were effective for the Group from 1 April 2018. In particular, the following standards had an impact on the Group's financial statements:

(i) IFRS 9 *Financial Instruments*

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy for financial instruments, IAS 39.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The standard applies two criteria to determine how financial assets should be classified and measured, namely:
(a) the entity's business model for managing the financial assets; and
(b) the contractual cash flow characteristics of the financial asset.

The Group has applied IFRS 9's classification and measurement requirements based on the facts and circumstances of the various types of instruments at the date of adoption of IFRS 9.

Previous accounting policy for impairment of trade receivables and operator loans
The only change as a result of the implementation of IFRS 9 is that, in the prior year, the impairment of trade and other receivables was assessed based on the incurred loss model*. Individual receivables which were known to be uncollectable were written off by reducing the carrying amount directly. The other receivables were assessed individually to determine whether there was objective evidence that an impairment had been incurred. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. Amounts charged to the provision account were generally written off when there was no expectation of recovering additional cash.

Financial liabilities classification and measurement under IFRS 9 has not changed significantly from IAS 39. Financial liabilities are either held at fair value (either required or designated) or at amortised cost. The new standard has not impacted the financial liabilities of the Group.

** All of the disclosures required for the expected credit loss measurement have not been included as the impairment is considered to be insignificant.*

1. Accounting policies continued

1.2 Changes in accounting policies continued

(i) IFRS 9 *Financial Instruments* *continued*

The below table summarises the original classification under IAS 39 and the new classification under IFRS 9 for each class of the Group's financial assets and financial liabilities.

	Original classification under IAS 39	New classification under IFRS 9
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss
Trade receivables	Loans and receivables	Financial assets at amortised cost
Sundry and other debtors	Loans and receivables	Financial assets at amortised cost
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Related-party receivables	Loans and receivables	Financial assets at amortised cost
Interest-bearing liabilities	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Trade payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Tenant deposits	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Related-party payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost

(ii) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 established a comprehensive framework for determining and reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contract with customers. It replaces IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts and their related interpretations in IFRS and applies to all contracts with customers except for contracts within the scope of other standards on leases, insurance contracts and financial instruments. It therefore does not impact the Group's revenue as its revenue is derived from lease contracts.

1.3 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's executive committee, who are the Group's chief operating decision-makers. The Group's executive committee reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Group's executive committee which are used to make strategic decisions and are disclosed in note 17.

1.4 Basis of consolidation and business combinations

The consolidated financial statements include the financial statements of subsidiaries and associates owned by the Company.

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Where the Group's interest in subsidiaries is less than 100%, the share attributable to outside shareholders is reflected in non-controlling interests. Subsidiaries are included in the financial statements from the date control commences until the date control ceases. Increases in fair value of assets that occur on the Group obtaining control, for nil consideration, of an entity previously accounted for as an associate or joint venture is transferred to a reserve called 'surplus arising on change in control'.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Intragroup balances, and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(ii) Associates

An investment is considered to be an associate when significant influence is exercised by the Company. The existence of significant influence is evidenced by:

- Representation on the Board of directors or equivalent governing body of the investee
- Participation in the policy-making process
- Material transactions between the Company and the investee
- Interchange of managerial personnel
- Provision of essential technical information

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition reserve movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Notes to the consolidated financial statements continued

1. Accounting policies continued

1.4 Basis of consolidation and business combinations continued

(ii) Associates continued

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investee and its carrying value and recognises the amount immediately in profit or loss.

Some of the Group's associates have different local statutory accounting reference dates. These are equity accounted using management prepared information on a basis coterminous with the Group's accounting reference date. Where management prepared information is at a different date from that of the Group's, the Group equity accounts that information, but takes into account any changes in the subsequent period to 31 March that would materially affect the results.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.5 Furniture, fittings and equipment

Furniture, fittings and equipment are stated at cost net of accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the Group and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

(i) Profit or loss on disposal

The profit or loss on the disposal of an asset is the difference between the disposal proceeds and the net book amount of the asset and is accounted for during the period in which the asset is disposed of.

1.6 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and where companies in the Group occupy no or an insignificant portion, is classified as investment property. Investment property also includes property that is being constructed or developed for future use. The nature of these properties is mostly hotels and includes furniture, fixtures and equipment and the underlying letting enterprise.

Investment property, including property that is being constructed or developed for future use, is stated at fair value. Gains or losses arising on changes in the fair value are recognised immediately in profit or loss.

Properties are initially recognised at cost on acquisition, which comprises the purchase price and includes expenditure that is directly attributable to the acquisition of the property. Subsequent costs are included in the property's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the Group and the cost can be measured reliably.

1.7 Financial instruments

Initial recognition and measurement

Financial assets are recognised when the Group becomes a party to the contractual provisions of the respective arrangement. Such assets consist of cash, equity instruments, a contractual right to receive cash or another financial asset, or a contractual right to exchange financial instruments with another entity on potentially favourable terms. Financial assets are derecognised when the right to receive cash flows from the asset has expired or has been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when they are extinguished, that is discharged, cancelled or expired.

Finance costs are charged against income in the year in which they accrue using the effective interest rate method. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or repayable at maturity are included in the effective interest calculation and taken to finance costs over the life of the instrument.

The Group classifies its financial assets in the following categories: at fair value through profit or loss and financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. In accordance with IFRS 9, the Group applies two criteria when classifying and measuring the financial assets, namely the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Management determines the classification of its financial assets at initial recognition.

1. Accounting policies continued

1.7 Financial instruments continued

Financial instruments designated as at fair value through profit or loss

Financial instruments at fair value through profit or loss are financial assets held for trading and/or designated by the entity upon initial recognition as at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial assets at amortised cost

Financial assets at amortised cost consist of assets which are held to collect the contractual cash flows, which consist solely of payments of principal and interest.

They are included in current assets (trade and other receivables), except for maturities of greater than 12 months after the balance sheet date which are classified as non-current assets.

Purchases and sales of investments are recognised on the date on which the Group commits to purchase or sell the asset.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Trade and other payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Trade payables are presented as current on the face of the balance sheet, unless there is an unconditional right to defer payment beyond 12 months.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and other short-term highly liquid investments. Cash and cash equivalents are measured at amortised cost which is equivalent to fair value.

1.8 Offsetting financial instruments

Where a legally enforceable right exists to set off recognised amounts of financial assets and liabilities and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously, which are in determinable monetary amounts, the relevant financial assets and liabilities are offset. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or counterparty.

1.9 Impairment of financial assets (previous accounting policy)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The policy applied until 31 March 2018 for the loans and receivables category was to measure the amount of the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in note 26.3.2.

1.10 Derivative financial assets and financial liabilities

Derivative financial assets and financial liabilities are financial instruments whose value changes in response to an underlying variable, require little or no initial investment and are settled in the future.

Derivative financial assets and liabilities are analysed between current and non-current assets and liabilities on the face of the balance sheet, depending on when they are expected to mature.

For derivatives that are not designated to have a hedging relationship, all fair value movements thereon are recognised immediately in profit or loss.

Notes to the consolidated financial statements continued

1. Accounting policies continued

1.11 Non-current assets held for sale

Non-current assets held for sale are those non-current assets of which the carrying amount will be recovered principally through sale rather than use. These non-current assets are available for immediate sale in their present condition, subject only to terms that are usual for the sale of such assets, and the sale is probable within a year as management is committed to a plan to dispose of the non-current assets, actively market them, and expect that these assets will be sold within a year.

1.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are shown in equity as a deduction from the proceeds.

1.13 Provisions

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

1.14 Acquisition of assets under common control

Transactions in which assets or businesses are ultimately controlled by the same party before and after the transaction and where that control is not transitory, are referred to as common control transactions. Where a transaction meets the definition of a common control transaction, predecessor accounting is applied. Any costs directly attributable to the acquisition are written off to reserves.

Predecessor accounting values assets and liabilities using the existing carrying value on the effective date with no goodwill or bargain purchase price being recognised. Any excess/deficit of the purchase price, over the pre-combination recorded ultimate holding company's carrying values, is adjusted directly to equity.

1.15 Revenue recognition

(a) Rental income

Revenue from the letting of investment property comprises rentals (excluding VAT) recognised on a straight-line basis over the term of the lease. Contingent (variable) rentals, including rentals from parking income and rentals from advertising, are included in revenue when the amounts can be reliably measured and the inflow of economic benefits are considered probable.

1.16 Finance income

Interest earned on cash invested with financial institutions and by the Company on its investments in its subsidiaries is recognised on an accrual basis using the effective interest method.

1.17 Expenses

(a) Recoveries of costs from lessees

Where the Group merely acts as an agent and makes payment of these costs on behalf of lessees, these are offset against the relevant costs.

(b) Finance costs

Finance costs are costs incurred on funds borrowed. These are expensed in the period in which they are incurred using the effective interest method.

1.18 Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to business combinations, or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination, where the initial recognition affects neither accounting nor taxable profit or loss and on differences relating to investments in subsidiaries and joint ventures to the extent that the parent company is able to control the timing of the reversal of the temporary differences and they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1. Accounting policies continued

1.18 Income tax continued

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable group, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In respect of REIT assets and liabilities (investment properties) the measurement of deferred tax is based on a rebuttable presumption that the amount of the investment property will be recovered entirely through sale. Capital gains or losses from property sold by a REIT are disregarded and the rate relevant to recoupments is 28%. Investment properties are held as long-term income-generating assets. Therefore, should any property no longer meet the Company's investment criteria and be sold, any profits or losses will be capital in nature and will be taxed at rates applicable to capital gains (currently nil). Allowances previously claimed will be recouped on sale. Where an accumulated loss is available to shield this recoupment, a deferred tax asset is raised.

Deferred tax is provided based on the expected manner of realisation, taking into account the entities' expectation that it will pay a dividend and will receive a tax deduction, making it in substance exempt.

1.19 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's board of directors.

1.20 Employee benefits

Short-term employee benefits are recognised in the period in which they are incurred.

Long-term benefits, which have been recently implemented, are recognised at the fair value of the liability incurred and are expensed when consumed. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss. Allocations vest in full three years after date of allocation.

The fair value of the long-term incentive plan liability is determined at each balance sheet date by reference to the parent entity's share price. This is adjusted for management's best estimate of the appreciation, bonus and units expected to vest.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Principles of critical accounting estimates and judgements

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below and on the following page.

2.1 Classification of investment properties (judgement)

Investment properties include land and buildings that are held for long-term rental yields and/or for capital appreciation. Investment properties include properties that are being constructed or developed for future use as investment properties.

In determining the classification of the properties as investment properties, management considered its exposure to the risks of running the hotel business and their associated exposure to the variability of the cash flows of the underlying operations. Management took the following factors into account:

- Intention to hold land and buildings for rental income and capital appreciation and its role as a passive investor.
- The duration of the lease agreements.
- Control over the decision-making powers of the relevant hotel operations.
- The present value of the minimum lease payments in relation to the fair value of the investment properties.
- Various financial ratios to determine its exposure to the variability of the hotel operations.

Based on the above, management concluded that the properties meet the definition of investment property.

2.2 Valuations of investment properties (estimate)

The Group has elected to measure investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the R186 (long bond) at the time of valuation, to which premiums are added for market risk and equity and debt costs. The discount rate takes into account a risk premium associated with the local economy.

Notes to the consolidated financial statements continued

2. Critical accounting estimates and judgements continued

2.3 Acquisition of assets under common control (judgement)

Hospitality concluded an agreement with Tsogo Sun in March 2018 to acquire 100% of the share capital in The Cullinan Hotel Proprietary Limited ('Cullinan') and Merway Fifth Investments Proprietary Limited ('Merway') effective 1 July 2017. The acquisition of the portfolio included 29 investment properties for an aggregate purchase consideration of R3.6 billion, which included a cash consideration of R1.03 billion and the issue of 174 064 861 shares at R14.00. The transaction is deemed to be a transaction under common control and consequently falls outside the scope of IFRS 3 *Business Combinations*. The Fund will apply the same accounting policy relating to common control transactions applied by Tsogo Sun, its parent shareholder. The policy is to apply predecessor accounting in common control transactions.

Under the predecessor accounting method, assets and liabilities acquired are recognised at the predecessor values with the difference between the acquisition value and the aggregate purchase consideration recognised as a separate reserve in equity.

The fair value gain on the assets acquired has been recognised as other comprehensive income as the uplift does not represent financial performance of the current period.

3. New standards and interpretations

3.1 Standards and interpretations not yet effective

(a) The following standards and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2019 or later periods, which the Group has not early adopted:

New and amended standard	Summary	Impact to the Group
IFRS 16 *Leases* The Group will apply IFRS 16 from 1 April 2019. Effective for annual periods beginning on or after January 2019.	The standard introduces a single lease accounting model and requires a lessee to recognise a right-to-use asset and corresponding liability for all leases. The impact on lessors are not expected to be significant.	The Group considered the impact of IFRS 16 to be immaterial.
Amendment to IFRS 3 *Business Combinations* The Group will apply the amendments to IFRS 3 from 1 April 2020. Effective for annual periods beginning on or after January 2020.	This amendment revises the definition of a business. According to feedback received by the IASB, the application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce. An entity can apply a 'concentration test' that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business.	The changes to the definition of a business will likely result in future acquisitions being accounted for as asset acquisitions instead of business combinations.
Amendment to IAS 1 and IAS 8 The Group will apply the amendments to IAS 1 and IAS 8 from 1 April 2020. Effective for annual periods beginning on or after January 2020.	The standard requires the use of a consistent definition of materiality, the explanation for the definition of materiality to be clarified and the guidance in IAS 1 about immaterial information to be incorporated.	The Group is still in the process of assessing the potential impact of the amendments to IAS 1 and IAS 8.

(b) IFRIC 23, uncertainty over income tax treatments, is expected to have no impact on the Group.

	2019 R'000	2018 R'000
4. Investment properties		
Opening fair value amount	12 533 970	8 061 038
Acquisitions, capital expenditure and development of investment properties[1]	211 992	447 028
Acquisition of subsidiary	–	2 172 892
Fair value adjustments recognised through other comprehensive income	–	2 388 848
Fair value adjustments recognised through profit or loss	(787 569)	(536 252)
Transfers from non-current assets held for sale	65 600	–
Straight-line rental income accrual	155	416
Disposal of investment property	(234)	–
Closing fair value amount	12 023 914	12 533 970

[1] *The prior year included the acquisition of the additional sections in the Sandton Eye Sectional Title Scheme for R301.6 million, of which R30.2 million was settled in shares.*

The investment property portfolio serves as collateral against loans from funding banks and secured notes, as held by the Fund. Refer to note 12.

Amounts recognised in profit or loss for investment properties

Rental income	827 786	866 917
Direct operating expenses from property that generated rental income	10 352	3 978
Direct operating expenses from property that did not generate rental income	–	–

Measurement of fair value

Investment properties were independently valued at 31 March 2019. The valuation of the portfolio was performed by B Nyagah, Professional Associate Valuer, from JHI Properties Proprietary Limited. The valuations have been done on an annual basis on the entire portfolio of investment properties.

The fair value of the investment properties has been categorised as a level 3 fair value based on the unobservable inputs to the valuation technique used as detailed below.

As at 31 March 2019 the significant unobservable inputs were as follows:
– A weighted average rental growth rate of 5.25% (2018: 5.0%).
– A terminal capitalisation rate of 7.25% to 7.75% (2018: 7.23% to 8.07%).
– A risk-adjusted discount rate of 12.50% to 13.00% (2018: 12.23% to 13.07%).

Material adverse changes to valuations are due to the material change in rental income, largely due to the change in sentiment, mainly in Cape Town, stemming from the drought and the impact this has had on the summer season in Cape Town, as well as the lower domestic corporate business which collectively impacted negatively on hotel occupancy levels.

The Group measures investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the R186 (long bond) at the time of valuation, to which premiums are added for market risk, equity and debt costs. The discount rate takes into account a risk premium associated with the local economy as well as that specific to the local property market and the hotel industry.

The table below indicates the sensitivities of the aggregate investment property portfolio by increasing or decreasing value inputs as follows:

	2019		2018	
	Increase Rm	Decrease Rm	Increase Rm	Decrease Rm
5% change in the net cash flows	707	(707)	623	(623)
25bps change in the terminal capitalisation rate	(291)	313	(292)	312
50bps change in the discount rate	(233)	239	(811)	927

Notes to the consolidated financial statements continued

	2019 R'000	2018 R'000
5. Non-current assets held for sale		
Opening fair value amount	**65 600**	65 610
Capitalised expenditure	**–**	2 209
Fair value adjustment*	**–**	(1 307)
Transfer of assets held for sale to investment properties	**(65 600)**	–
Disposals	**–**	(911)
Closing net carrying amount	**–**	65 600

** Fair value adjustment included as part of the fair value adjustment in profit or loss which is transferred to the fair value reserve.*

Non-current assets held for sale consisted of the Kopanong Hotel and Conference Centre property which consists of a country estate with 57 chalets and conference facilities. Due to management's intention to dispose of the property as a whole rather than through the sale of individual units, there is uncertainty around whether a suitable buyer could be found and the property disposed of, within the next 12 months. As such, the asset has been reclassified to investment property during the year under review.

	2019 R'000	2018 R'000
6. Furniture, fittings and equipment		
Cost		
Balance at the beginning of the year	**2 586**	2 531
Acquisition during the year	**290**	164
Disposal during the year	**–**	(109)
Balance at the end of the year	**2 876**	2 586
Depreciation and impairment losses		
Balance at the beginning of the year	**2 423**	2 333
Depreciation for the year	**116**	90
Balance at the end of the year	**2 539**	2 423
Carrying amount		
Balance at the beginning of the year	**163**	198
Balance at the end of the year	**337**	163

7. Investments in associates

The Group has the following interests in its principal associates:

Unlisted

- 15% in Ash Brook Investments 72 Proprietary Limited, a strategic partner and associate to the Company, as it leases the Radisson Blu Gautrain property from HPF.
- 5% in Vexicure Proprietary Limited, a strategic partner and associate to the Company, as it leases the Westin Cape Town property from HPF.

	2019 R'000	2018 R'000
Unlisted		
Opening balance	**751**	477
Profit attributable to HPF Properties Proprietary Limited	**720**	274
Dividends received	**(700)**	–
At 31 March	**771**	751
Made up as follows:		
Listed	**–**	–
Unlisted	**771**	751
	771	751

7. Investments in associates continued

Vexicure Proprietary Limited

Vexicure is a strategic partner and associate to the Company, as it leases the Westin Hotel property and contributed 12.7% (2018: 15.2%) to the rental income. The Company is represented by two (in terms of the shareholders' agreement) of the five directors of Vexicure's board of directors and therefore exercises significant influence.

Summarised financial information of material associates

	2019 R'000	2018 R'000
Summary of Vexicure statement of financial position which represents 100%		
Assets		
Non-current assets	2 100	–
Current assets	111 668	118 384
Total assets	113 768	118 384
Equity and liabilities		
Capital and reserves	2 879	10 784
Non-current liabilities	–	106
Current liabilities	110 889	101 994
Total equity and liabilities	113 768	112 884
Summary of Vexicure statement of comprehensive income which represents 100%		
Gross profit	289 620	258 135
Total operating expenditure	(169 210)	(121 040)
Rental to HPF Properties Proprietary Limited	(104 597)	(131 815)
Taxation	(1 420)	(2 835)
Profit and total comprehensive income for the year	14 393	2 445
Profit attributable to the Group	720	122
Vexicure Proprietary Limited		
Opening balance	484	362
Profit attributable to HPF Properties Proprietary Limited	720	122
Dividends	(700)	–
	504	484

Ash Brook Investments 72 Proprietary Limited

Ash Brook is a strategic partner and associate to the Fund, as it leases the Radisson Blu Gautrain property from HPF Properties Proprietary Limited and contributed 3.6% (2018: 3.8%) to the rental income. The Fund is represented by two (in terms of the shareholders' agreement) of the four directors of its board of directors and therefore exercises significant influence. The majority shareholder holds the casting vote in a general meeting.

	2019 R'000	2018 R'000
Assets		
Non-current assets	23	424
Current assets	32 860	37 181
Total assets	32 883	37 605
Equity and liabilities		
Capital and reserves	1 489	1 000
Non-current liabilities	9 933	9 933
Current liabilities	21 461	26 672
Total equity and liabilities	32 883	37 605

Notes to the consolidated financial statements continued

	2019 R'000	2018 R'000
7. Investments in associates continued		
Summary of Ash Brook statement of comprehensive income which represents 100%		
Gross profit	**129 632**	106 120
Total operating expenditure	**(91 910)**	(72 120)
Rental to HPF Properties Proprietary Limited	**(36 569)**	(32 737)
Taxation	**(1 302)**	(246)
Profit and total comprehensive income for the year	**(149)**	1 016
Profit attributable to the Group	**–**	152
Ash Brook Investments 72 Proprietary Limited		
Opening balance	**267**	115
Profit attributable to HPF Properties Proprietary Limited	**–**	152
	267	267
Vexicure Proprietary Limited		
Reconciliation to carrying amounts		
Opening net assets 1 April 2018	**10 784**	8 339
Profit for the period	**14 393**	2 445
Other reconciling item	**(22 298)**	–
Closing net assets	**2 879**	10 784
Group's share in percentage (%)	**5**	5
Group's share in associate	**144**	539
Goodwill	**–**	–
Carrying amount	**144**	539
Ash Brook Investments 72 Proprietary Limited		
Reconciliation to carrying amounts		
Opening net assets 1 April 2018	**1 000**	375
Profit for the period	**(149)**	1 016
Tax adjustment	**–**	(391)
Other reconciling item	**638**	–
Closing net assets	**1 489**	1 000
Group's share in percentage (%)	**15**	15
Group's share in associate	**223**	150
Goodwill	**–**	–
Carrying amount	**223**	150

	2019 R'000	2018 R'000
8. Trade and other receivables		
Financial instruments		
Trade receivables	**75 925**	82 432
Deposits	**378**	378
Operator loans	**24 315**	14 092
Other receivables[1]	**14 612**	15 449
Guarantees[2]	**20 658**	–
Sundry debtors	**1 269**	177
Non-financial instruments		
Prepayments	**787**	1 521
VAT receivable	**6 566**	6 315
Income tax receivable	**–**	13 552
	144 510	133 916

[1] R3 775 has been reallocated from other receivables to trade receivables for 2018 due to it being trade in nature.
[2] Guarantees, which are held in Shapiro's trust account, relate to cash held in anticipation of the purchase of two additional Sandton Eye units.

Trade receivables are written off when there is no expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery is the failure of a debtor to engage in a repayment plan with the Group, and a failure to make timely payments on a regular basis. The creation of the provisions for doubtful debts is offset by the release of provisions for receivables where impairment has reversed and has been included in other expenses in the income statement.

The loss considerations for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the existing market conditions as well as forward-looking estimates at the end of each reporting period.

Trade receivables

The Group applies IFRS 9 *Financial Instruments*, and uses the simplified approach to measure lifetime expected credit losses for all trade receivables. However, this had an insignificant impact on the Group's numbers, due to the short-term nature of trade receivables. In addition, there have been no significant historic losses or issues relating to the collectability of receivables. The contractual terms of agreements were considered in particular, which requires fixed rental to be paid in advance and variable rental to be paid within 15 days.

Operator loans

Operator loans, which consist of loans provided to hotel operators through signed agreements, use the general approach to measure credit losses. However, this had an insignificant impact on the Group's numbers. There have been no significant historic losses or issues related to the collectability of other receivables from the relevant hotel operators.

Sundry debtors, guarantees, other receivables and deposits

Sundry debtors, guarantees, other receivables and deposits were initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Other receivables and deposits do not contain significant credit risk and there are no significant receivables past due, not impaired or impaired. No further disclosure is provided in this regard.

Past due but not impaired – trade receivables

At 31 March 2019, trade receivables of R3 million (2018: Rnil) were past due but not impaired. Based on communications with these debtors and agreements reached, there is no reason to believe that these amounts will not be recovered.

Impairment – trade receivables

At 31 March 2019, trade receivables of R0.1 million (2018: Rnil) were impaired and provided for. The individually impaired receivables mainly relate to rent receivables from two tenants at the Sandton Eye with long outstanding balances.

Notes to the consolidated financial statements continued

	2019 R'000	2018 R'000
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Current accounts	31 036	18 096
Call accounts	64 246	372 495
	95 282	390 591

The Company has an unutilised revolving credit facility of R500 million with Standard Bank. The call accounts consist of excess funds which are deposited with Tsogo Sun treasury, as the interest income is earned at a rate of 7.75% (2018: 7.5%) as opposed to earning 5.25% in a money market account.

10. Stated capital

Provision for shareholders' redemption

The provision relates to the dissenting shareholders' appraisal rights. The Board determined a fair value of R2.90 per appraisal share, which amounts to a total fair value of R24 million. In terms of section 164(14)(b) of the Companies Act, the dissenting shareholders have applied to the court to determine a fair value. The provision is payable on demand.

	2019 R'000	2018 R'000
Authorised		
2 000 000 000 shares of no par value		
The unissued shares are under the control of the directors of the Company subject to the provisions of the Companies Act.		
Issued		
578 154 207 shares of no par value (2018: 578 154 207)[1]	9 027 065	9 027 065
Number of shares/units		
No par value ordinary shares	575 214 177	575 214 177
– Shares in issue	578 154 207	578 154 207
– HPF Employee Incentive Trust shares	(562 774)	(562 774)
– Shareholders' redemption	(2 377 256)	(2 377 256)
Weighted average number of shares		
No par value ordinary shares	575 214 177	495 203 569
– Shares in issue	578 154 207	498 143 599
– HPF Employee Incentive Trust shares	(562 774)	(562 774)
– Shareholders' redemption	(2 377 256)	(2 377 256)
Distribution per share (cents)		
No par value share	105.39	120.29
– Interim	41.22	41.83
– Final	64.17	78.46

[1] *This includes 2 377 256 ordinary shares due to dissenting shareholder rights having been exercised and 562 774 ordinary shares which are held as treasury shares.*

	2019 R'000	2018 R'000
11. Non-distributable reserve		
Fair valuation of investment properties	(316 949)	470 620
Fair valuation of interest rate swap	(113 931)	(120 025)
Fair value uplift recognised as part of the common control transaction	2 388 848	2 388 848
	1 957 968	2 739 443

		2019 R'000	2018 R'000
12. Interest-bearing borrowings			
Non-current			
Domestic medium-term note programme			
– Secured note HPF06 – expiry: February 2020	3-month JIBAR +2.80%	–	60 000
– Unsecured note HPF08 – expiry: April 2019	3-month JIBAR +3.00%	–	80 000
– Secured note HPF09 – expiry: April 2019	3-month JIBAR +2.25%	–	150 000
– Secured note HPF11 – expiry: March 2023	3-month JIBAR +1.95%	600 000	600 000
		600 000	890 000
Standard Bank			
– Facility A	3-month JIBAR +1.78%	550 000	550 000
– Facility B	3-month JIBAR +1.98%	500 000	500 000
– Facility C (revolving credit facility of R500 million)[1]	3-month JIBAR +1.60%	–	–
		1 050 000	1 050 000
Debt raising fee		(2 642)	(3 929)
Total non-current interest-bearing liabilities		1 647 358	1 936 071
Current			
Domestic medium-term note programme			
– Secured note HPF06 – expiry: February 2020	3-month JIBAR +2.80%	60 000	–
– Unsecured note HPF08 – expiry: April 2019	3-month JIBAR +3.00%	80 000	–
– Secured note HPF09 – expiry: April 2019	3-month JIBAR +2.25%	150 000	–
Total current interest-bearing liabilities		290 000	–
Total interest-bearing liabilities		1 937 358	1 936 071
Total interest-bearing liabilities payable in the following financial years:			
31 March 2020		290 000	290 000
31 March 2022		1 050 000	1 050 000
31 March 2023		600 000	600 000
		1 940 000	1 940 000

[1] R100 million of the facility was utilised in December 2018 and settled in January 2019.

The Group's bank facilities of R1.6 billion and the total drawn down facilities of R1.1 billion are secured in terms of a first mortgage bond over investment properties valued at R11.5 billion (2018: R9.3 billion). The current limit of the borrowing powers in terms of the JSE Listings Requirements amounts to R5.3 billion (2018: R5.6 billion), of which R1.94 billion (2018: R1.94 billion) has been utilised. Included as part of trade and other payables (note 13) is interest accrued of R19 million (2018: R12 million) relating to the abovementioned interest-bearing liabilities. The unamortised portion of the debt raising fee amounted to R2.6 million (2018: R3.9 million).

Loan to value ('LTV')

The LTV as at 31 March 2019 is required to be 45% (2018: 40%) or lower.

As at 31 March 2019, the Group's LTV was 16% (2018: 15%).

Interest cover ratio ('ICR')

The ICR requirement for the year ended 31 March 2019 is a minimum of 2.0 times.

For the year ended 31 March 2019, the Group ICR cover was 4.5 times (2018: 5.0 times).

Notes to the consolidated financial statements continued

12. Interest-bearing borrowings continued

Net debt reconciliation

This section sets out an analysis of the net debt and movements in debt for each of the periods presented. The reconciliation is a new requirement based on the IAS 7 cash flow disclosure initiative.

	Other assets	
	Cash R'000	Borrowing R'000
Net debt as at 31 March 2018	390 591	1 940 000
Cash received	–	100 000
Cash paid	(295 309)	(100 000)
Net debt as at 31 March 2019	**95 282**	**1 940 000**

	2019 R'000	2018 R'000
Financial liabilities measured at amortised cost		
Bank borrowings	**1 050 000**	1 050 000
Corporate bonds (domestic medium-term note programme)	**890 000**	890 000
	1 940 000	1 940 000
Less: Facility raising fees	**(2 642)**	(3 929)
	1 937 358	1 936 071

	2019 R'000	2018 R'000
13. Trade and other payables		
Trade payables	**12 543**	9 477
Accrued interest	**19 247**	11 690
Tenant deposits	**1 977**	2 049
Short-term incentive	**4 169**	1 800
Operator loans	**14 505**	14 505
Other payables	**26 778**	12 397
	79 219	51 919
14. Revenue		
Contractual rental income	**827 631**	866 501
Rental income – straight-line accrual	**155**	416
	827 786	866 917
15. Reconciliation between earnings and headline earnings		
Total profit for the year	**(194 095)**	113 751
Adjustments:		
Profit on sale of furniture, fittings and equipment	**–**	(109)
Fair value – investment properties revaluation	**787 569**	537 560
Straight-line adjustment	**(155)**	(416)
Headline earnings	**593 319**	650 786
Number of shares in issue ('000)	**575 214**	578 154
Weighted average number of shares in issue ('000)	**575 214**	495 204
Earnings and diluted earnings per share (cents)	**(33.74)**	22.97
Headline earnings and diluted headline earnings per share (cents)	**103.15**	131.42

16. Operating segments

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit including other income before finance costs, as included in the internal management reports that are reviewed by the Group's executive committee. Segment profit is used to measure performance as the Group's executive committee, who are the chief operating decision-makers, believe that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Intersegment pricing is determined on an arm's-length basis. Generally, geographical segments are used to measure performance as the Group's executive committee believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries, particularly post the acquisition of the additional hotel properties during the 2018 year. SUN1 is disclosed as a separate segment as the grading is different to the existing portfolio.

	2019 R'000	2018 R'000
Total assets		
Western Cape	5 087 453	5 860 680
Gauteng	3 603 185	3 330 214
Rest of Africa	2 493 286	2 474 430
SUN1	839 990	933 830
Head office	242 683	525 836
	12 266 597	13 124 990
Rental revenue		
Western Cape	312 387	368 587
Gauteng	266 785	259 774
Rest of Africa	186 438	186 693
SUN1	62 176	51 863
	827 786	866 917
Operating profit for the period		
Western Cape	312 387	368 587
Gauteng	266 785	259 774
Rest of Africa	186 438	186 693
SUN1	62 176	51 863
Head office income	1 767	–
Head office expense	(76 096)	(46 555)
	753 457	820 362
Reconciliation of headline earnings to distributable earnings		
Headline earnings	593 319	650 787
Insurance proceeds	(655)	–
Fair value – interest rate swaps	(6 094)	5 371
Income tax expense	(191)	–
Exceptional transaction costs	19 834	–
Distributable earnings	606 213	656 158

Please refer to note 21 on dividends declared in the period and note 26.3, where the percentage of revenue from the Group's largest customer is disclosed.

Notes to the consolidated financial statements continued

	2019 R'000	2018 R'000
17. Operating profit/(loss)		
Operating profit is stated after charging the following:		
Auditors' remuneration – external	**3 176**	2 920
– Audit fees	**1 862**	2 016
– Audit fees – prior year extended audit scope	**313**	544
– Non-audit-related fees[1]	**1 001**	360
Auditors' remuneration – internal	**873**	888
Management fees paid	**289**	312
Executive directors' and employee remuneration	**20 767**	15 492
Transaction costs	**19 834**	1 860
Non-executive directors' remuneration	**3 981**	3 523
Legal fees	**3 473**	1 792
Other operating expense	**23 739**	19 768
Cost-to-income ratio[2]		
Total revenue	**829 553**	866 917
Total head office costs	**76 096**	46 555
Percentage of revenue (%)	**9.17**	5.37

[1] *Fees relate mainly to work performed on LTV certificates and for guidance relating to the implementation of HPF long-term incentive bonus plan.*
[2] *The cost-to-income ratio has been disclosed in accordance with the accepted REIT best practice. This ratio is not directly comparable to other REITs as the property-related expenditure is paid by the tenant in most instances.*

	2019 R'000	2018 R'000
18. Net finance costs		
Finance income		
Bank and other cash	**17 206**	27 706
Finance costs		
Interest-bearing liabilities	**(184 194)**	(191 769)
	(166 988)	(164 063)
19. Other non-operating gains/(losses)		
Fair value (losses)/gains	**(787 569)**	(537 560)
– Investment property	**(787 569)**	(536 253)
– Non-current assets held for sale	**–**	(1 307)
Derivatives	**6 094**	(5 371)
Total other non-operating losses	**(781 475)**	(542 931)

	2019 R'000	2018 R'000
20. Reconciliation of taxation expense		
Profit before tax	**(54 602)**	31 774
Straight-lining adjustment	**43**	(116)
Profit on sale of furniture, fittings and equipment	**–**	(31)
Equity-accounted profit from associate	**202**	77
Fair valuation of investment property	**220 432**	150 517
Fair valuation of swaps	**(1 706)**	1 504
Insurance proceeds	**(183)**	–
Transaction costs	**5 554**	–
Dividend (qualifying distribution)	**(169 740)**	(183 724)
Tax expense	**–**	–
Current tax – overprovision on prior year	**(191)**	
	(191)	–

The Group has no liability for normal taxation as all profits are paid out as a dividend (qualifying distribution) and shareholders/linked unitholders are consequently subject to tax according to the individual linked unitholder's tax status.

	2019 R'000	2018 R'000
21. Dividends declared		
Ordinary		
Final dividend	451 771	147 398
Clean-out dividend	–	48 380
Interim dividend	237 123	156 006
	688 894	351 783
Final dividend declared on	23 May 2018	24 May 2017
Final dividend paid on	18 June 2018	19 June 2017
Final dividend cents per share	78.46 cents	44.93 cents
Clean-out dividend declared on	–	9 June 2017
Clean-out dividend paid on	–	10 July 2017
Clean-out dividend cents per share	–	14.74 cents
Interim dividend declared on	21 November 2018	22 November 2017
Interim dividend paid on	18 December 2018	18 December 2017
Interim dividend cents per share	41.22 cents	27.09 cents
Reconciliation to statement of changes in equity		
Final dividend declared	451 771	147 398
Employee Incentive Trust intercompany dividend eliminated on consolidation	(441)	(206)
Final dividend per statement of changes in equity	451 330	147 192
Clean-out dividend declared	–	48 380
Employee Incentive Trust intercompany dividend eliminated on consolidation	–	(68)
Clean-out dividend per statement of changes in equity	–	48 312
Interim dividend declared	237 123	156 006
Employee Incentive Trust intercompany dividend eliminated on consolidation	–	(217)
Interim dividend per statement of changes in equity	237 123	155 789

	2019 R'000	2018 R'000
22. Cash generated from operations		
Profit before tax	(195 006)	113 477
Adjustments for:		
Amortisation and depreciation	116	90
Loss on disposal of furniture, fittings and equipment	–	(109)
Straight-lining accrual of rent	(155)	(416)
Interest income	(17 206)	(27 706)
Finance costs	184 194	191 769
Fair value gains	781 475	542 931
Other non-cash items	1 477	274
Changes in working capital		
Acquired through the acquisition of a subsidiary, excluding cash	–	(14 638)
Trade and other receivables	(10 595)	(18 379)
Capital expenditure/receipts on property held for trading	–	(2 209)
Trade and other payables	27 300	(59 957)
Long-term incentive liability	(120)	–
	771 480	725 127

23. Commitments

The Board has committed a total of R263 million (2018: R236 million) for maintenance and expansion capital items at its hotel properties of which R263 million is anticipated to be spent during the next financial year. R32 million (2018: R26 million) of the committed capital expenditure has been contracted for at year end. The Board has committed R29 million for expansive capital expenditure.

Notes to the consolidated financial statements continued

24. Related parties

Hosken Consolidated Investments Limited	Ultimate holding company
Tsogo Sun Holdings Limited	Holding company of Southern Sun Hotels Proprietary Limited
Southern Sun Hotels Proprietary Limited	Holding company
HPF Properties Proprietary Limited	100% subsidiary
HPF Management Proprietary Limited	100% subsidiary
Hospitality Property Fund Managers Proprietary Limited	100% subsidiary
Hosbrook Ventures Proprietary Limited	100% subsidiary
NIB 35 Proprietary Limited	100% subsidiary
Fezisource Proprietary Limited	100% subsidiary
Merway Fifth Investments Proprietary Limited	100% subsidiary
The Cullinan Hotel Proprietary Limited	100% subsidiary
HPF Employee Incentive Trust	Key staff benefit structure pre-2015
Sandton Eye Sectional Title Scheme	81.54% of the participation quota

Vexicure is a subsidiary of Pan-African Capital Holdings Proprietary Limited (80% held), of which Z Kubukeli is a director. HPF Properties Proprietary Limited owns a 5% shareholding in Vexicure. M de Lima, K Randall as well as Z Kubukeli are directors of Vexicure. Vexicure leases the Westin Cape Town Hotel from the Group. Vexicure is accounted for as an associate entity	Vexicure Proprietary Limited
HPF Properties Proprietary Limited owns 15% of Ash Brook, and both K Randall and M de Lima are directors of Ash Brook. Ash Brook is accounted for as an associate entity. Ash Brook leases the Radisson Blu Gautrain Hotel from the Group	Ash Brook Investments 72 Proprietary Limited
The HPF Employee Incentive Trust is a separate legal entity, which owns B shares in Hospitality Property Fund Limited. DG Bowden, GA Nelson and R Erasmus are trustees of the trust	HPF Employee Incentive Trust
HPF Properties Proprietary Limited leases the Crowne Plaza Rosebank and the Holiday Inn Sandton to Majormatic 194 Proprietary Limited which is a subsidiary of Southern Sun Hotels Proprietary Limited	Majormatic 194 Proprietary Limited
Fezisource Proprietary Limited, Merway Fifth Investments Proprietary Limited and The Cullinan Hotel Proprietary Limited lease property to Reshub Proprietary Limited which is a subsidiary of Southern Sun Hotels Proprietary Limited	Reshub Proprietary Limited

	2019 R'000	2018 R'000
Related-party transactions and balances		
Associates		
Vexicure Proprietary Limited		
Rental received	**91 527**	131 815
Dividend received	**700**	–
Trade and other receivables	**13 070**	–
Trade and other payables	**6 192**	5 626
Tenant deposit and guarantee held as security on leases	**181**	2 893
Ash Brook Investments 72 Proprietary Limited		
Rental received	**29 045**	32 737
Trade and other receivables	**1 124**	6 494
Tenant deposit and guarantee held as security on leases	**1 746**	1 746

In 2017, Tsogo Sun acquired a controlling stake in the Fund, through the injection of hotel assets from Fezisource such that the issue of shares to Tsogo Sun resulted in Tsogo Sun owning 50.6% of the shares.

In 2018, HPF acquired two subsidiaries from Southern Sun Hotels which in aggregate held a portfolio of 29 hotel properties. The impact of this transaction was that Tsogo Sun's effective holding increased from 50.6% to 59.4% prior to the Sandton Eye Sectional Title Scheme acquisition. With effect 31 August 2017, HPF issued the last tranche of 2 150 856 shares to Savana Property Proprietary Limited as part settlement in terms of an agreement concluded with Savana to acquire various sections and exclusive use areas of the Sandton Eye Sectional Title Scheme and an agreement with Sandton Isle Investments Proprietary Limited to acquire an existing real right of extension. As a result of this issue of shares, Tsogo Sun's effective holding was diluted from 59.4% to 59.2%.

24. Related parties continued

	2019 R'000	2018 R'000
Reshub Proprietary Limited		
Rental received	402 664	420 256
Trade and other receivables	39 785	42 433
Majormatic 194 Proprietary Limited		
Rental received	36 918	44 416
Trade and other receivables	2 870	203

25. Directors' emoluments

	Salaries R'000	Benefits R'000	Bonus R'000	Share incentive scheme R'000	Total R'000
Executive					
2019					
KG Randall (previous CEO – resigned 1 November 2018)[1]	2 548	463	1 439	370	4 820
JR Nicolella (CEO – appointed 1 November 2018)	542	–	–	–	542
MR de Lima (CFO)	1 654	424	862	62	3 002
	4 744	887	2 301	432	8 364
2018					
KG Randall (CEO)	2 479	291	449	1 198	4 417
MR de Lima (CFO)	1 514	403	323	244	2 484
	3 993	694	772	1 442	6 901

[1] *Upon his resignation on 1 November 2018, KG Randall was appointed as the Chief Operating Officer of the Group. Being a member of key management, emoluments for the full 12 months have been disclosed.*

	Directors' fees R'000	Total R'000
Non-executive		
2019		
JA Copelyn	407	407
DG Bowden*	359	359
ZN Malinga*	210	210
SA Halliday	366	366
GA Nelson	278	278
ZN Kubukeli*	291	291
MN von Aulock	64	64
J Booysen*	213	213
L McDonald	256	256
ZJ Kganyago	256	256
JR Nicolella	150	150
RB Huddy#	22	22
M Ahmed	166	166
MSI Gani	399	399
	3 437	3 437

** Resigned prior to 31 March 2019.*
 # Not part of directorate.

Fees are exclusive of VAT.

Notes to the consolidated financial statements continued

	Directors' fees R'000	Total R'000
25. Directors' emoluments continued		
Non-executive continued		
2018		
JA Copelyn	378	378
L de Beer*	348	348
DG Bowden	355	355
ZN Malinga	352	352
SA Halliday	338	338
GA Nelson	296	296
ZN Kubukeli	307	307
WC Ross*	121	121
MN von Aulock*	127	127
J Booysen	134	134
L McDonald	242	242
ZJ Kganyago	242	242
JR Nicolella	242	242
RB Huddy#	41	41
	3 523	3 523

** Resigned prior to 31 March 2018.*
 # Not part of the directorate.

Payments to directors borne by group companies[1]

	Salaries R'000	Benefits R'000	Bonus R'000	Share incentive scheme R'000	Total R'000
2019					
MN von Aulock	**5 191**	**435**	**–**	**–**	**5 626**
J Booysen	**6 997**	**836**	**2 562**	**1 138**	**11 533**
L McDonald	**1 627**	**324**	**469**	**350**	**2 770**
ZJ Kganyago	**2 562**	**364**	**655**	**–**	**3 581**
JR Nicolella (CEO)	**1 421**	**37**	**2 028**	**162**	**3 648**
2018					
MN von Aulock	4 083	26 680	3 456	12 357	46 575
J Booysen	4 933	572	–	–	5 505
L McDonald	1 543	402	551	836	3 332
ZJ Kganyago	2 303	292	667	900	4 162

[1] These payments are additional to the payments borne by the Company.

25.1 Cash settled – Tsogo Sun and Hospitality Property Fund Share Appreciation Bonus Plan

The Tsogo Sun Share and HPF Appreciation Bonus Plan is a bonus scheme whereby participants receive cash bonuses, the amounts of which are determined with reference to the growth in the respective company's share price. Participants under this bonus appreciation plan are not entitled to take up shares or options. Allocations vest in full three years after date of allocation.

The fair value is expensed over the period as services are rendered by the employees. In terms of the rules, the fair values of the payments are determined using the seven-day volume weighted average trading price of the parent company's share prior to the determination of the fair value of the long-term incentive bonus. The following is pertinent to this bonus plan:

Tsogo Sun Share Appreciation Bonus Plan

	2019	2018
Average share price utilised to value the liability (R)	**23.5**	25.5
Number of appreciation units granted and outstanding ('000)	**844**	987
Number of appreciation units vested and outstanding ('000)	**709**	653

The Group recognised an expense of R0.1 million (2018: R0.3 million income) related to this bonus appreciation plan during the year and at 31 March 2019, the Group had recorded liabilities of R1.7 million (2018: R1.9 million) in respect of this plan. The current portion of this liability is R1.4 million (2018: R0.5 million).

25. Directors' emoluments continued

25.1 Cash settled – Tsogo Sun and Hospitality Property Fund Share Appreciation Bonus Plan continued

Hospitality Property Fund Share Appreciation Bonus Plan

	2019 R'000	2018 R'000
Average share price utilised to value the liability (R)	11.85	–
Number of appreciation units granted and outstanding ('000)	802	–
Number of appreciation units vested and outstanding ('000)	–	–
The Group recognised an expense of R0.2 million (2018: Rnil) related to this bonus appreciation plan during the year and at 31 March 2019, the Group had recorded liabilities of R0.2 million (2018: Rnil) in respect of this plan. The current portion of this liability is Rnil (2018: Rnil). The strike price at grant date amounted to R11.85 per share for 31 March 2019		
25.2 Total long-term incentive liabilities		
Opening balance	1 985	266
Balance transferred from Tsogo Sun	–	3 502
Charge to statement of comprehensive income	312	(343)
Cash-settled, share-based, long-term incentive plan	(432)	(1 441)
	1 865	1 985
Less: Current portion	1 419	502
Non-current portion	446	1 483

26. Financial risk management and further financial instrument disclosures

Financial instruments consist mainly of deposits with banks, trade and other receivables, loans from banks, debentures, trade and other payables and interest rate swaps. Exposure to interest rate, liquidity and credit risks arises in the normal course of business.

Treasury policy

The Group enters into derivative transactions such as interest rate swaps in order to help manage the financial risks arising from the Group's activities as required by debt providers. The main risks arising from the entity's financing structure are market risk (in the form of interest rate risk) and liquidity risk. The policies for managing each of these risks and the principal effect of these policies on the results for the year are summarised below.

26.1 Interest rate risk

Management continuously monitors the Group's exposure to interest rate volatility and determines the interest rate policy in this regard. Short-term debtors and creditors are not exposed to interest rate risk. As a consequence, the Group is exposed to cash flow risk in respect of variable rate financial instruments.

The Group's debt carries floating interest rates; however, the Group's current policy is to keep 60% to 70% of its borrowings on a fixed basis. Interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure. The interest rate swaps are not designated as cash flow hedges for accounting purposes and thus any changes in the fair value of the interest rate swaps at the date of reporting to the interest rate at the date of reporting would affect profit or loss but, as these gains or losses are not available for distribution, they would be transferred to a fair value reserve.

The interest rate exposure of the Group to interest-bearing financial instruments is as follows:

	Nominal value Group	
	2019 R'000	2018 R'000
Variable rate instrument		
Financial liabilities[1]	(1 937 358)	(1 936 071)
	(1 937 358)	(1 936 071)
Effect of interest rate swaps	1 100 000	1 050 000
	(837 358)	(886 071)

[1] *Prepaid debt raising fees of R2.6 million (2018: R3.9 million) have been included.*

Notes to the consolidated financial statements continued

26. Financial risk management and further financial instrument disclosures continued

26.1 Interest rate risk continued

At the reporting date, the following interest rate swap agreements were in place:

	Nominal rate	Commencement date	Maturity	Nominal value R'000	**Fair value at 31 March 2019 R'000**	Fair value at 31 March 2018 R'000
Rand Merchant Bank – swap 5	7.88%	Feb-16	Feb-19	250 000	**–**	(2 241)
Absa Limited	7.42%	Feb-19	Mar-22	300 000	**(199)**	–
Absa Limited – swap 1	7.24%	Aug-17	Jun-22	500 000	**(1 772)**	(3 775)
Nedbank Limited – swap 5	7.16%	Feb-18	Mar-23	300 000	**1 783**	(267)
					(188)	(6 283)

Negative values denote that swap is in the bank's favour.

Derivative asset/liability

	Non-current R'000	**Current R'000**	**Fair value at 31 March 2019 R'000**	Non-current R'000	Current R'000	Fair value at 31 March 2018 R'000
Derivative asset	**1 783**	**–**	**1 783**	–	–	–
Derivative liability	**(1 971)**	**–**	**(1 971)**	(4 042)	(2 241)	(6 283)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased/decreased profit or loss by R9 million (2018: R7 million), including the effects of interest rate swaps. This analysis assumes that all the other variables remain constant.

26.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet a financial commitment as it falls due. Cash flows are regularly monitored to ensure that cash resources are adequate to meet funding commitments. The Group's policy is to seek to optimise its exposure to liquidity risk by balancing its exposure to interest rate risk and to refinancing risk. In effect, the entity seeks to borrow for as long as possible at the lowest acceptable cost.

The Group regularly reviews the maturity profile of its financial liabilities and seeks to avoid a concentration of maturities through the regular replacement of facilities and by using a selection of maturity dates. Refinancing risk may be reduced by reborrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk.

The following are the contractual maturities of financial liabilities including finance costs. All financial liabilities, with the exception of derivative liabilities measured at fair value, are measured and carried at amortised cost.

	Total R'000	**0 – 12 months R'000**	**1 – 5 years R'000**	**More than 5 years R'000**
Group 31 March 2019				
Interest-bearing liabilities	**2 816 775**	**471 928**	**2 344 847**	**–**
Derivative liability	**1 971**	**–**	**1 971**	**–**
Trade and other payables	**79 219**	**79 219**	**–**	**–**
	2 897 965	**551 147**	**2 346 818**	**–**
Group 31 March 2018				
Interest-bearing liabilities	2 556 513	177 239	2 379 274	–
Derivative liability	6 283	2 241	4 042	–
Trade and other payables	51 919	51 919	–	–
	2 614 714	231 399	2 383 316	–

26. Financial risk management and further financial instrument disclosures continued

26.2 Liquidity risk continued

It is not expected that the cash flows from the above instruments would occur significantly earlier than presented.

The Company's borrowings are limited by its memorandum of incorporation and in terms of the JSE Listings Requirements to 60% of the directors' bona fide valuation of the consolidated property portfolio.

The Company's utilised borrowing capacity at year end can be summarised as follows:

	31 March 2019 R'000	31 March 2018 R'000
Property valuation[1]	12 023 914	12 599 570
60% thereof	7 214 348	7 559 742
Effective borrowings	1 937 358	1 936 071
Unutilised borrowing capacity	5 276 990	5 623 671
Facilities available in terms of agreements at year end	2 440 000	2 440 000
Undrawn facilities	502 642	503 929
Gearing ratio	16.1	15.4

[1] *The prior year property valuation includes R65 600 relating to non-current assets held for sale.*

26.3 Credit risk

Credit risk arises from the risk that trade and other receivables may default and result in a loss to the entity. The entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral (in the form of cash deposits and bank guarantees), where appropriate, as a means of mitigating the risk of financial loss from default. Financial performance of the tenants' business is monitored on an ongoing basis.

	Properties number	Income %	Receivable R'000
Concentration risk			
– Tenant 1	41	58	42 655
– Tenant 2	7	20	14 321
– Tenant 3	2	7	5 833
– Balance	3	15	13 116
	53	100	75 925
2018			
– Tenant 1	41	54	36 089
– Tenant 2	7	24	8 953
– Tenant 3	2	8	6 000
– Balance	3	14	31 390
	53	100	82 432

In terms of the entity structure, there is a concentration risk in terms of the revenues earned and the resultant receivables. Management receives comprehensive monthly management reports and attends the monthly meeting with the hotel operators in order to monitor performance and identify elements of credit risk.

Notes to the consolidated financial statements continued

26. Financial risk management and further financial instrument disclosures continued

26.3 Credit risk continued

26.3.1 Credit exposure

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2019 R'000	Group 2018 R'000
Trade and other receivables		
Trade receivables	**75 925**	82 432
Deposits	**378**	378
Operator loans	**24 315**	14 092
Other receivables	**14 612**	15 449
Guarantees	**20 658**	–
Sundry debtors	**1 269**	177
	137 157	112 528
Tenant deposits	**32 776**	20 518
Bank guarantees	**30 800**	16 888

The Group holds deposits over certain trade and other receivables in the form of cash tenant deposits and bank guarantees as indicated above.

The directors are of the opinion that the financial assets have an insignificant credit risk.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only group audit and risk committee approved parties are accepted (on behalf of the Board). The Group has policies that limit the amount of credit exposure to any bank and financial institution. The Group limits its exposure to banks and financial institutions by setting credit limits based on their credit ratings and generally only with counterparties with a minimum credit rating of BBB by Standard & Poor's and Baa3 from Moody's. For banks with a lower credit rating, or with no international credit rating, limits are set by the audit and risk committee on behalf of the Board. The utilisation of credit limits is regularly monitored.

Operator loans and other receivables

The Company does not require collateral for these loans. The Company accounts for credit risk by providing on a timely basis, which historically has been insignificant. In calculating expected loss rates the Company would consider historic loss rates and forward looking information. Each loan is monitored individually. Before a loan is advanced, appropriate credit procedures are followed.

26.3.2 Impairment losses

The ageing of tenant and related receivables at the reporting date was:

	Gross carrying amount 31 March 2019 R'000	Gross carrying amount 31 March 2018 R'000
Current (< 30 days)	**95 524**	78 718
30 – 60 days	**3 584**	3 031
60 – 90 days	**1**	860
>90 days[1]	**38 048**	29 919
Total	**137 157**	112 528

[1] *Of the total over 90 days, only R282 (2018: Rnil) is past due, with R24 million (2018: R14 million) relating to operator loans and the balance relating to various receivables from numerous debtors.*

Tenant and related receivables as noted above are continuously assessed for impairment. There is no current indication of any default by any of the above receivables at year end. In total, R0.1 million of receivables have been written off as at 31 March 2019.

The Group comprehensively assesses the individual circumstances and credit risk of each tenant and receivable and an impairment loss is recognised after the assessment indicates that recoverability is unlikely.

Management has assessed the credit quality of tenants and related receivables as being of low risk.

26. Financial risk management and further financial instrument disclosures continued

26.4 Capital structure

In prior years, the entity viewed its capital base as the sum of its shares and debentures as each share was linked to a debenture. During the previous year, both par value shares and debentures converted into no-par value shares. The entity seeks to enhance shareholder value by both investing in the business so as to improve the return on investment and by managing the capital structure. The entity uses a mix of equity and debt financial instruments and aims to access both debt and equity capital markets with maximum efficiency and flexibility. The key ratios used to monitor the capital structure are the debt-to-assets ratio and the interest coverage ratio. Notwithstanding the fact that the entity's total liabilities are limited by the JSE Limited Listings Requirements for REITs at 60% of total assets, the current strategy is to maintain debt levels below 40% of the total investment properties portfolio as per the current loan agreements in place.

	31 March 2019 R'000	31 March 2018 R'000
Stated capital	**9 027 065**	9 027 065
Total capital	**9 027 065**	9 027 065
Total interest-bearing liabilities[1]	**1 940 000**	1 940 000

[1] *The unamortised portion of the debt raising fee amounted to R2.6 million (2018: R3.9 million) at year end.*

The above capital and interest-bearing liabilities are employed to acquire investment properties for the Group.

26.5 Carrying amounts and fair values of financial instruments

	Derivative financial asset R'000	**Derivative financial liability R'000**	**Financial assets at amortised cost (2019 – IFRS 9)/ Loans and receivables (2018: – IAS 39) R'000**	**Financial liabilities at amortised cost R'000**
Group 2019				
Financial asset				
Derivative asset	**1 783**	**–**	**–**	**–**
Trade and other receivables	**–**	**–**	**137 157**	**–**
Cash and cash equivalents	**–**	**–**	**95 282**	**–**
Financial liabilities				
Derivative liability	**–**	**1 971**	**–**	**–**
Trade and other payables	**–**	**–**	**–**	**79 219**
Interest-bearing liabilities	**–**	**–**	**–**	**1 940 000**
Group 2018				
Financial asset				
Trade and other receivables	–	–	127 600	–
Cash and cash equivalents	–	–	390 591	–
Financial liabilities				
Derivative liability	–	6 283	–	–
Trade and other payables	–	–	–	111 876
Interest-bearing liabilities	–	–	–	1 940 000

The carrying amounts of trade and other receivables; cash and cash equivalents, trade and other payables and interest-bearing liabilities reflected in the statement of financial position approximates the fair value.

The following summarises the significant methods and assumptions used in estimating the fair value of financial instruments. Where applicable, the fair values of financial assets and liabilities have been established using the market value, where available. For those instruments without a market value, a discounted cash flow approach is used.

Notes to the consolidated financial statements continued

26. Financial risk management and further financial instrument disclosures continued

26.5 Carrying amounts and fair values of financial instruments continued

Derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date.

Non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other payables

The carrying amount of trade and other payables reasonably approximates its fair value due to their short-term nature.

Trade and other receivables

The carrying amount of trade and other receivables reasonably approximates its fair value due to their short-term nature.

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates its fair value due to their short-term nature.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
31 March 2019				
Derivative financial assets	–	1 783	–	1 783
Derivative financial liabilities	–	(1 971)	–	(1 971)
	–	(188)	–	(188)
31 March 2018				
Derivative financial liabilities	–	(6 283)	–	(6 283)
	–	(6 283)	–	(6 283)

There were no defaults on loans payable by the Group and Company during the year.

27. Subsequent events

The Fund settled corporate notes HPF08 and HPF09, which matured on 15 April 2019, of R80 million and R150 million respectively. A new corporate note for R300 million was issued (HPF12) and will mature in March 2024.

Subsequent to year end, on 23 May 2019, the Board of directors declared a final gross cash dividend from income reserves in respect of the year ended 31 March 2019 of 64.17 cents per share. The number of ordinary shares in issue at the date of this declaration was 575 214 177 (excluding appraisal right shares and HPF Employee Incentive Trust shares).

Appendices to the financial statements

	Valuation %	Gross rental income %	Number of rooms* %
28. Property portfolio information			
Lease expiry profile			
One year	–	–	–
Two to five years	19	22	23
After five years	81	78	77
	100	100	100

** Indicates number of rooms at 31 March 2019 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel.*

	Gross rental income %	Number of rooms* %
By lease type		
Fixed leases	–	–
Fixed and variable leases	100	100
	100	100

** Indicates number of rooms at 31 March 2019 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel.*

	Average room rate R	Valuation R'000	Gross rental income R'000	Number of rooms*
Property grading[1]				
Luxury	2 047	2 009 934	122 048 934	926
Upscale	1 376	4 875 432	327 698 123	2 216
Midscale	906	4 297 986	315 708 094	4 354
Economy	504	839 990	62 175 561	1 508
		12 023 342	827 630 712	9 004

** Indicates number of rooms at 31 March 2019 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel.*

[1] All tenants are graded as A tenants, being large national tenants.

	%
Average property yield	
2019#	6.6
2018**	10.8

 # The 2019 average property yield is determined as follows: FY2019 year rental income/investment properties 2018 value.
*** The 2018 average property yield is determined as follows: FY2018 year rental income/investment properties 2017 value.*

Property portfolio

Property name	Property title	HPF ownership	Property location	Star grading	No of rooms	Agreement type	Lease expiry date
Western Cape							
Westin Cape Town	Land lease	Direct	Convention Square, Cape Town, Western Cape	Luxury	483	Fixed and variable lease	2037/12/31
Arabella Hotel and Spa	Freehold	Direct	Hermanus, Western Cape	Luxury	145	Fixed and variable lease	2021/05/13
Arabella Phase 2 land	Land	Direct	Hermanus, Western Cape	N/A	N/A	N/A	N/A
Southern Sun Cullinan	Freehold	Direct	Waterfront, Cape Town, Western Cape	Upscale	394	Fixed and variable lease	2037/03/31
Southern Sun Waterfront	Freehold	Direct	Waterfront, Cape Town, Western Cape	Luxury	537	Fixed and variable lease	2037/03/31
Radisson Blu Waterfront	Freehold	90 sectional title units	Waterfront, Cape Town, Western Cape	Luxury	177	Fixed and variable lease	2029/08/01
Protea Hotel Victoria Junction	Freehold	147 sectional title units (84% units in the scheme)	Waterfront, Cape Town, Western Cape	Upscale	172	Fixed and variable lease	2027/01/31
Southern Sun Newlands	Freehold	Direct	Newlands, Cape Town	Midscale	162	Fixed and variable lease	2036/03/31
StayEasy Century City	Freehold	Direct	Milnerton, Cape Town	Midscale	175	Fixed and variable lease	2036/03/31
Sunsquare Cape Town	Freehold	Direct	Gardens, Cape Town	Midscale	136	Fixed and variable lease	2036/03/31
Western Cape total					2 381		
Gauteng							
Mount Grace Country House and Spa	Freehold	Direct	Magaliesburg, Gauteng	Luxury	121	Fixed and variable lease	2023/12/01
Crowne Plaza Rosebank	Freehold	Direct	Rosebank, Johannesburg, Gauteng	Upscale	318	Fixed and variable lease	2021/03/01
Holiday Inn Sandton	Freehold	Direct	Sandton, Gauteng	Upscale	301	Fixed and variable lease	2021/03/01
Radisson Blu Gautrain	Freehold	Sectional title	Sandton, Gauteng	Upscale	220	Fixed and variable lease	2030/12/31
Southern Sun Katherine Street	Freehold	Direct	Sandton, Gauteng	Upscale	122	Fixed and variable lease	2037/03/31
Birchwood Hotel and OR Tambo Conference Centre	Freehold	Direct	Boksburg, Gauteng	Midscale	665	Fixed and variable lease	2021/07/01
Garden Court OR Tambo	Freehold	Direct	Kempton Park, Johannesburg, Gauteng	Midscale	253	Fixed and variable lease	2036/03/31
Garden Court Milpark	Freehold	Direct	Auckland Park, Johannesburg, Gauteng	Midscale	251	Fixed and variable lease	2036/03/31
Garden Court Morningside	Freehold	Direct	Sandton, Gauteng	Midscale	150	Fixed and variable lease	2037/03/31
Garden Court Hatfield	Freehold	Direct	Hatfield, Pretoria, Gauteng	Midscale	157	Fixed and variable lease	2037/03/31
Garden Court Eastgate	Freehold	Direct	Bruma, Johannesburg, Gauteng	Midscale	157	Fixed and variable lease	2037/03/31
StayEasy Eastgate	Freehold	Direct	Bruma, Johannesburg, Gauteng	Midscale	135	Fixed and variable lease	2037/03/31
Kopanong Hotel and Conference Centre	Freehold	Sectional title	Benoni, Gauteng	Midscale	169	Fixed and variable lease	2023/11/30
Gauteng total					3 019		

Valuation March 2018 R'000	Disposals R'000	Capital expenditure R'000	Revaluation surplus/ (deficit) R'000	Valuation March 2019 R'000	Original cost R'000	Capitalised post-acquisition R'000	Total cost March 2019 R'000
1 945 230		86 665	(319 843)	**1 712 052**	648 895	187 044	**835 939**
167 417		15 018	(53 635)	**128 800**	83 368	52 290	**135 658**
22 643			–	**22 643**	22 643	–	**22 643**
1 150 410		6 952	(197 204)	**960 158**	1 114 108	6 592	**1 120 700**
1 252 720		12 469	(232 732)	**1 032 457**	1 186 176	12 469	**1 198 645**
476 870		4 548	15 702	**497 120**	232 963	77 718	**310 681**
324 800		3 367	(99 805)	**228 362**	122 839	59 440	**182 279**
153 310		1 480	18 663	**173 453**	160 986	5 391	**166 377**
265 480		1 797	(29 037)	**238 240**	252 288	4 606	**256 894**
101 800		2 441	(10 074)	**94 167**	99 489	4 159	**103 648**
5 860 680	–	134 737	(907 965)	**5 087 452**	3 923 755	409 709	**4 333 464**
147 500		7 206	(8 267)	**146 439**	131 562	198 801	**330 363**
365 134		1 970	(56 565)	**310 539**	70 000	340 983	**410 983**
250 610		4 431	92 018	**347 059**	409 247	41 186	**450 433**
616 800	(234)	7 503	(41 724)	**582 345**	458 878	26 822	**485 700**
96 500		729	36 922	**134 151**	86 175	729	**86 904**
682 930		15 771	148 171	**846 872**	460 859	93 631	**554 490**
328 540		1 622	61 606	**391 768**	422 122	5 038	**427 160**
279 370		238	26 463	**306 071**	374 652	2 583	**377 235**
134 490		827	27 245	**162 562**	171 334	827	**172 161**
205 890		2 597	(21 315)	**187 172**	170 266	2 597	**172 863**
97 260		341	(10 376)	**87 225**	151 389	341	**151 730**
59 590		359	(25 138)	**34 811**	86 423	359	**86 782**
65 600		–	–	**65 600**	78 130	8 468	**86 598**
3 330 214	(234)	43 594	229 040	**3 602 614**	3 071 037	722 365	**3 793 402**

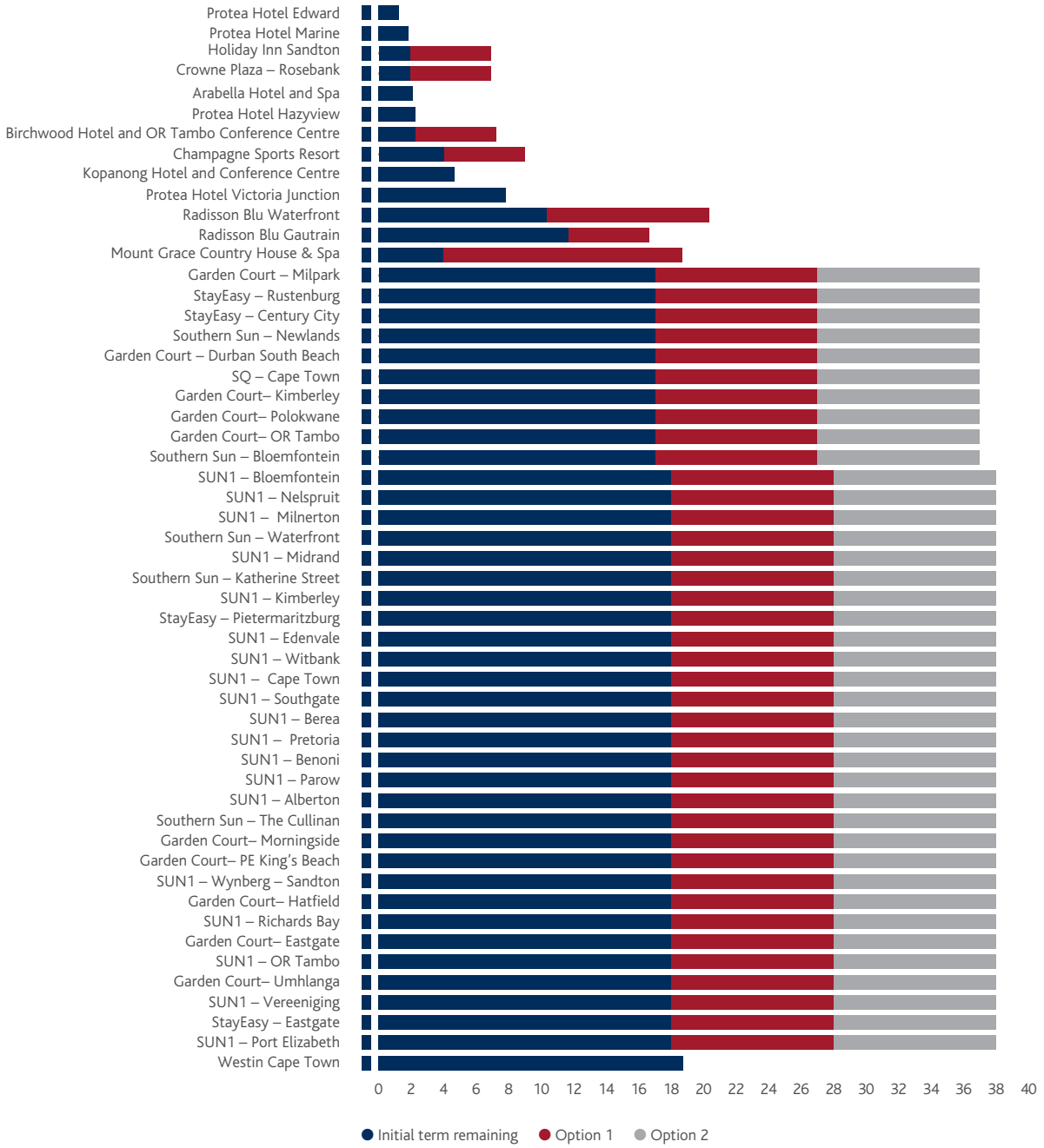
Property portfolio continued

Property name	Property title	HPF ownership	Property location	Star grading	No of rooms	Agreement type	Lease expiry date
Remainder of South Africa							
Champagne Sports Resort	Freehold	Combined share block and direct	Central Berg, KwaZulu-Natal	Upscale	152	Fixed lease agreement	2023/03/31
Southern Sun Bloemfontein	Freehold	Direct	Bloemfontein	Midscale	147	Fixed and variable lease	2036/03/31
Protea Hotel Edward	Freehold	Direct	OR Tambo Parade Drive, Durban	Midscale	131	Fixed and variable lease	2020/07/01
Protea Hotel Marine	Freehold	Direct	Port Elizabeth, Eastern Cape	Midscale	114	Fixed and variable lease	2021/02/01
Garden Court South Beach	Freehold	Direct	South Beach, Durban	Midscale	414	Fixed and variable lease	2036/03/31
Garden Court Polokwane	Freehold	Direct	Polokwane	Midscale	180	Fixed and variable lease	2036/03/31
Garden Court Kimberley	Freehold	Direct	Kimberley	Midscale	135	Fixed and variable lease	2036/03/31
Garden Court Kings Beach	Freehold	Direct	Port Elizabeth, Eastern Cape	Midscale	280	Fixed and variable lease	2037/03/31
Garden Court Umhlanga	Freehold	Sectional title	Umhlanga, KwaZulu-Natal	Midscale	204	Fixed and variable lease	2037/03/31
StayEasy Pietermaritzburg	Sectional title	Beneficial holding	Pietermaritzburg, KwaZulu-Natal	Midscale	127	Fixed and variable lease	2037/03/31
StayEasy Rustenburg	Freehold	Direct	Rustenburg	Midscale	125	Fixed and variable lease	2036/03/31
Protea Hotel Hazyview	Freehold	Direct	Hazyview, Mpumalanga	Midscale	87	Fixed and variable lease	2021/06/30
Remainder of South Africa total					2 096		
SUN1 Hotels							
SUN1 Alberton	Freehold	Direct	Alberton, Johannesburg, Gauteng	Economy	76	Fixed and variable lease	2037/03/31
SUN1 Benoni	Freehold	Direct	Benoni, Johannesburg, Gauteng	Economy	58	Fixed and variable lease	2037/03/31
SUN1 Berea	Freehold	Direct	Berea, Johannesburg, Gauteng	Economy	69	Fixed and variable lease	2037/03/31
SUN1 Bloemfontein	Freehold	Direct	Bloemfontein, Free State	Economy	64	Fixed and variable lease	2037/03/31
SUN1 Cape Town	Freehold	Direct	Cape Town, Western Cape	Economy	64	Fixed and variable lease	2037/03/31
SUN1 Edenvale	Freehold	Direct	Edenvale, Johannesburg, Gauteng	Economy	76	Fixed and variable lease	2037/03/31
SUN1 Kimberley	Freehold	Direct	Kimberley, Northern Cape	Economy	64	Fixed and variable lease	2037/03/31
SUN1 Midrand	Freehold	Direct	Midrand, Gauteng	Economy	94	Fixed and variable lease	2037/03/31
SUN1 Milnerton	Freehold	Direct	Cape Town, Western Cape	Economy	70	Fixed and variable lease	2037/03/31
SUN1 Nelspruit	Freehold	Direct	Nelspruit, Mpumalanga	Economy	76	Fixed and variable lease	2037/03/31
SUN1 OR Tambo	Freehold	Direct	Kempton Park, Johannesburg, Gauteng	Economy	78	Fixed and variable lease	2037/03/31
SUN1 Parow	Freehold	Direct	Cape Town, Western Cape	Economy	76	Fixed and variable lease	2037/03/31
SUN1 Port Elizabeth	Freehold	Direct	Port Elizabeth, Eastern Cape	Economy	88	Fixed and variable lease	2037/03/31
SUN1 Pretoria	Freehold	Direct	Pretoria, Gauteng	Economy	135	Fixed and variable lease	2037/03/31
SUN1 Richards Bay	Freehold	Direct	Richards Bay, KwaZulu-Natal	Economy	64	Fixed and variable lease	2037/03/31
SUN1 Southgate	Freehold	Direct	Mondeor, Johannesburg South, Gauteng	Economy	138	Fixed and variable lease	2037/03/31
SUN1 Vereeniging	Freehold	Direct	Vereeniging, Gauteng	Economy	41	Fixed and variable lease	2037/03/31
SUN1 Witbank	Freehold	Direct	Emalahleni, Mpumalanga	Economy	90	Fixed and variable lease	2037/03/31
SUN1 Wynberg	Freehold	Direct	Sandton, Johannesburg, Gauteng	Economy	87	Fixed and variable lease	2037/03/31
SUN1 Hotels total					1 508		

Valuation March 2018 R'000	Disposals R'000	Capital expenditure R'000	Revaluation surplus/ (deficit) R'000	Valuation March 2019 R'000	Original cost R'000	Capitalised post-acquisition R'000	Total cost March 2019 R'000
303 490		6 514	(63 724)	**246 280**	148 792	79 175	**227 967**
97 250		954	5 398	**103 602**	148 676	1 841	**150 517**
171 450		2 580	(1 789)	**172 241**	110 400	50 979	**161 379**
95 050		1 530	(8 915)	**87 665**	73 000	52 114	**125 114**
612 450		4 592	(75 073)	**541 969**	592 637	13 827	**606 464**
276 740		1 275	(23 671)	**254 344**	292 050	2 538	**294 588**
127 700		673	4 616	**132 989**	196 326	2 406	**198 732**
214 100		2 503	91 224	**307 827**	190 305	8 097	**198 402**
237 790		2 543	63 350	**303 683**	298 942	6 853	**305 795**
143 400		1 177	20 409	**164 986**	137 199	3 324	**140 523**
120 100		405	(10 072)	**110 433**	118 490	2 876	**121 366**
74 910		3 173	(10 816)	**67 267**	41 508	19 339	**60 847**
2 474 430	–	27 919	(9 063)	**2 493 286**	2 348 325	243 369	**2 591 694**
65 915		278	(4 566)	**61 627**	69 410	278	**69 688**
25 547		204	2 683	**28 434**	24 334	204	**24 538**
33 235		186	(14 808)	**18 613**	32 132	186	**32 318**
37 899		228	(2 947)	**35 180**	35 230	228	**35 458**
60 389		397	5 413	**66 199**	60 005	397	**60 402**
11 904		186	(3 605)	**8 485**	11 786	186	**11 972**
28 716		165	(13 171)	**15 710**	21 841	165	**22 006**
79 841		227	(28 243)	**51 825**	88 022	227	**88 249**
69 329		444	(3 943)	**65 830**	67 516	444	**67 960**
53 722		343	(1 259)	**52 806**	52 042	343	**52 385**
34 022		201	(9 820)	**24 403**	33 244	201	**33 445**
58 877		421	4 513	**63 811**	64 796	421	**65 217**
70 619		260	(175)	**70 704**	69 922	260	**70 182**
115 628		416	(7 890)	**108 154**	135 612	416	**136 028**
20 958		686	(7 947)	**13 697**	27 774	686	**28 460**
88 466		248	(136)	**88 578**	91 231	248	**91 479**
14 401		283	(6 688)	**7 996**	16 462	283	**16 745**
24 978		252	109	**25 339**	29 881	252	**30 133**
39 384		317	(7 101)	**32 600**	30 229	317	**30 546**
933 830	–	5 742	(99 581)	**839 991**	961 469	5 742	**967 211**

Lease expiry profile

Lease profile expiry (years)



Analysis of ordinary shareholdings

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	186	21.33	48 434	0.01
1 001 – 10 000	277	31.77	1 193 676	0.21
10 001 – 100 000	233	26.71	9 108 064	1.57
100 001 – 1 000 000	138	15.83	45 972 859	7.95
Over 1 000 000	38	4.36	521 831 174	90.26
Total	**872**	**100.00**	**578 154 207**	**100.00**
Distribution of shareholders				
Assurance companies	18	2.06	5 230 721	0.90
Close corporations	12	1.38	1 388 590	0.24
Collective investment schemes	140	16.06	130 600 944	22.59
Control accounts	1	0.11	14	0.00
Custodians	5	0.57	7 067 424	1.22
Foundations and charitable funds	21	2.41	45 193 924	7.82
Hedge funds	13	1.49	2 594 505	0.45
Insurance companies	4	0.46	2 279 881	0.39
Investment partnerships	5	0.57	41 743	0.01
Managed funds	14	1.61	579 485	0.10
Medical aid funds	8	0.92	1 871 328	0.32
Organs of state	3	0.34	3 522 039	0.61
Private companies	26	2.98	345 877 318	59.82
Public companies	2	0.23	121 647	0.02
Public entities	2	0.23	136 567	0.02
Retail shareholders	395	45.30	3 221 626	0.56
Retirement benefit funds	148	16.97	25 023 883	4.33
Scrip lending	2	0.23	679 090	0.12
Share schemes	1	0.11	562 774	0.10
Stockbrokers and nominees	10	1.16	251 568	0.05
Trusts	41	4.70	1 909 134	0.33
Unclaimed scrip	1	0.11	2	0.00
Total	**872**	**100.00**	**578 154 207**	**100.00**

Analysis of ordinary shareholdings continued

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder type				
Non-public shareholders	8	0.92	343 731 192	59.45
>10% Southern Sun Hotels Proprietary Limited	1	0.11	341 992 565	59.15
Share schemes	1	0.11	562 774	0.10
Directors and associates	6	0.70	1 175 853	0.20
Public shareholders	864	99.08	234 423 015	40.55
Total	872	100.00	578 154 207	100.00
Fund managers with a holding greater than 3% of the issued shares				
Coronation Fund Managers			89 199 016	15.43
Prudential Investment Managers			27 535 916	4.76
Total			116 734 932	20.19
Beneficial shareholders with a holding greater than 3% of the issued shares				
Southern Sun Hotels Proprietary Limited			341 992 565	59.15
Coronation Fund Managers			64 039 804	11.08
HCI Foundation			42 857 144	7.41
Total			448 889 513	77.64
Total number of shareholdings	872			
Total number of shares in issue	578 154 207			
Share price performance				
Opening price 3 April 2018	R12.00			
Closing price 29 March 2019	R9.81			
Closing high for period	R12.49			
Closing low for period	R8.75			
Number of shares in issue	578 154 207			
Volume traded during period	27 975 301			
Ratio of volume traded to shares issued	4.84%			
Rand value traded during the period	R279 501 251			
Price/earnings ratio as at 29 March 2019	7.65			
Earnings yield as at 29 March 2019	13.07			
Dividend yield as at 29 March 2019	1.07			
Market capitalisation at 29 March 2019	R5 671 692 771			

Directors' interests

	31 March 2019				31 March 2018			
	Director		Associate	Total	Director		Associate	Total
	Direct beneficial	Indirect beneficial			Direct beneficial	Indirect beneficial		
J Booysen[1]	145 977	–	–	145 977	133 957	–	–	133 957
ZN Kubukeli[4]	–	–	–	–	–	–	33 919	33 919
GA Nelson	–	–	490 129	490 129	–	–	490 123	490 123
L McDonald[2]	–	–	104 848	104 848	–	–	93 598	93 598
M von Aulock[3]	–	120 355	314 544	434 899	n/a	n/a	n/a	n/a
	145 977	120 355	909 521	1 175 853	133 957	–	617 640	751 597

[1] *Resigned on 1 December 2018.*
[2] *Elsitime Proprietary Limited ('Elsitime') owns 419 392 Hospitality shares. L McDonald is a director and a 25% shareholder of Elsitime.*
[3] *M van Aulock was appointed on 1 December 2018. He has an indirect beneficial interest in 120 355 Hospitality shares. He is also a director and 75% shareholder of Elsitime, which owns 419 392 Hospitality shares.*
[4] *Resigned 15 March 2019.*

Note: There have been no changes in the above interests of directors subsequent to year end and the date of approval of the consolidated annual financial statements.

Notice of annual general meeting of shareholders

Hospitality Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2005/014211/06)
JSE share code: HPB
ISIN: ZAE000214656
(Approved as a REIT by the JSE)
('Hospitality' or 'the Company')

Notice is hereby given to shareholders of the Company that the annual general meeting ('AGM') of the Company will be held at Palazzo Towers West, Montecasino Boulevard, Fourways on Thursday, 17 October 2019 at 09:00 to (i) deal with such business as may lawfully be dealt with at the meeting and (ii) consider and, if deemed fit, to pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended ('the Companies Act'), as read with the Listings Requirements of the JSE Limited ('the JSE Listings Requirements').

Section 63(1) of the Companies Act: Identification of meeting participants

Meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a meeting. Forms of identification that will be accepted include original and valid identity documents, drivers' licences and passports.

Record dates

In terms of sections 59(1)(a) and (b) of the Companies Act, the directors have determined that the date on which a shareholder must be registered in the Company's register of shareholders in order to:

- receive notice of the AGM is Friday, 19 July 2019; and
- participate in and vote at the AGM is Friday, 11 October 2019.

The last day to trade in order to be registered in the Company's register of shareholders to be able to participate in and vote at the AGM will therefore be Tuesday, 8 October 2019.

Voting requirements

All ordinary resolutions will, in terms of the Companies Act, require support of more than 50% of the voting rights of shareholders, in their capacity as shareholders, exercised thereon, to be approved. All special resolutions will, in terms of the Companies Act, require support of at least 75% of the total voting rights of shareholders, in their capacity as shareholders, exercised thereon at the meeting, to be approved.

1. Ordinary resolution number 1: Receipt and adoption of annual financial statements and reports

"Resolved that the audited consolidated annual financial statements of the Company, together with the report of the directors, the independent auditors and the audit and risk committee for the period ended 31 March 2019 as set out on pages 53 to 91 be and are hereby adopted."

The Company's social and ethics committee report, which deals with matters within its mandate, is included on page 46. Any specific questions to the social and ethics committee may be addressed to the Company Secretary prior to the meeting at rosao@hpf.co.za.

2. Ordinary resolution number 2: Election and re-election of the Company's directors by separate resolutions

2.1 Ordinary resolution number 2.1

"Resolved that Mrs MR de Lima, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as an executive director of the Company."

2.2 Ordinary resolution number 2.2

"Resolved that Mrs L McDonald, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as a non-executive director of the Company."

2.3 Ordinary resolution number 2.3

"Resolved that Mr JR Nicolella, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as a non-executive director of the Company."

2.4 Ordinary resolution number 2.4

"Resolved that Mr R Erasmus, who was appointed by the Board to serve as an executive director of the Company, with effect from 1 June 2019 and who is eligible and available for election, is elected as an executive director of the Company."

2.5 Ordinary resolution number 2.5

"Resolved that Mr SC Gina, who was appointed by the Board to serve as an independent non-executive director of the Company, with effect from 1 June 2019 and who is eligible and available for election, is elected as an independent non-executive director of the Company."

2.6 Ordinary resolution number 2.6

"Resolved that Dr LM Molefi, who was appointed by the Board to serve as an independent non-executive director of the Company, with effect from 1 June 2019 and who is eligible and available for election, is elected as an independent non-executive director of the Company."

2.7 Ordinary resolution number 2.7

"Resolved that Mr JG Ngcobo, who was appointed by the Board to serve as an independent non-executive director of the Company, with effect from 1 June 2019 and who is eligible and available for election, is elected as an independent non-executive director of the Company."

2.8 Ordinary resolution number 2.8

"Resolved that Mr MN von Aulock, who was appointed by the Board to serve as a non-executive director of the Company, with effect from 1 December 2018 and who is eligible and available for election, is elected as a non-executive director of the Company."

Reason for ordinary resolution number 2: Election and re-election of directors at the AGM

In accordance with the Company's memorandum of incorporation, one-third of the Company's directors are required to retire at each AGM and may offer themselves for re-election.

The nomination committee has considered the past performance and contribution to the Company of the directors standing for re-election and recommends to shareholders that they be re-elected.

Abridged curriculum vitae of each of the directors standing for election and re-election appear below:

Marcel Nikolaus von Aulock
Chairman, non-executive director
CA(SA)
Date of appointment: 1 December 2018

Marcel served his articles at PwC and joined Tsogo as group Financial Manager in 1999. In 2004 he was promoted to group Strategic Planning Director. In 2009 he was appointed Chief Financial Officer and on 30 September 2011 he assumed the role of Chief Executive Officer of Tsogo. Marcel resigned from Tsogo on 1 June 2017, but re-joined the Group on 1 June 2018, as Chief Executive Officer of Tsogo Sun Hotels, the Group's hotel division with a portfolio of more than 90 hotels under its management. Marcel represented Tsogo on the Board of Hospitality between 1 September 2016 and 1 June 2017. Marcel re-joined the Hospitality board on 1 December 2018.

Committee membership: nomination (Chairman); remuneration

Notice of annual general meeting of shareholders continued

Mara Raquel Dos Santos de Lima
Chief Executive Officer
CA(SA)
Date of appointment: 30 September 2016

Mara was appointed as the Chief Executive Officer of Hospitality on 1 June 2019, prior to which she served as the Chief Financial Officer. Mara served her articles at KPMG Inc. and joined Southern Sun Hotels Proprietary Limited as Management Accountant in October 2007. Mara was promoted to group Financial Manager of Tsogo Sun Hotels in February 2009. Mara does not hold positions on any other governing body outside of the Hospitality group.

Committee membership: social and ethics

Riaan Erasmus
Chief Financial Officer
CA(SA)
Date of appointment: 1 June 2019

Riaan was appointed as the Chief Financial Officer of Hospitality on 1 June 2019. He served his articles at KPMG Inc. Riaan previously held the position of group Financial Manager at Hospitality and acting Chief Financial Officer prior to the takeover of Hospitality by Tsogo Sun, where he served until recently as the Group Treasurer managing the debt portfolio for both Tsogo and Hospitality, as well as other treasury-related transactions.

Sipho Christopher (Chris) Gina
Independent non-executive director
Bachelor of Arts, MBA
Date of appointment: 1 June 2019

Chris is currently the deputy secretary general of the South African Clothing and Textile Workers Union. He will be retiring from the position this year. Chris also serves on the boards of Ithala Development Finance Corporation, KwaZulu-Natal Economic Council, the National Bargaining Council of the Clothing Industry and Tsogo Sun Hotels Limited.

Committee membership: social and ethics (Chairman); nomination

Laurelle McDonald
Non-executive director
CA(SA)
Date of appointment: 1 September 2016

Laurelle served her articles at Grant Thornton and joined Gold Reef Resorts as an Assistant Financial Manager at Silverstar Casino in 2007. Thereafter, she was appointed as the Group Financial Manager and the Company Secretary of Gold Reef Resorts. After the acquisition of Gold Reef Resorts by Tsogo Sun, Laurelle was appointed Corporate Finance and Treasury Manager of Tsogo Sun and later served as a member of Tsogo Sun's executive committee. Laurelle is currently the Chief Financial Officer of Tsogo Sun Hotels.

Committee membership: social and ethics

Lynette Moretla Molefi
Independent non-executive director
BSc, MB ChB

Date of appointment: 1 June 2019

Lynette is a versatile well-qualified entrepreneur and an experienced business executive. She has a broad knowledge of the telemedicine and mobile health industry and the technology world in general. Lynette runs her own business and is involved in social entrepreneurship programmes locally and internationally. She has a BSc and a MB ChB degree and serves on a number of boards.

Committee membership: audit and risk; nomination

Jabulani (Jabu) Geffrey Ngcobo
Independent non-executive director
Date of appointment: 1 June 2019

Jabu was the regional secretary for Africa of the International Textile Garment and Leather Workers Federation from 1999 to 2006, Prior to this appointment he held the position of general secretary of the Southern African Clothing and Textile Workers Union for six years from 1994 to 1999. Jabu was appointed to the board of HCI as a non-executive director in October 2004. He also serves on the board of Tsogo Sun Hotels, Niveus Investments and HCI Coal.

Committee membership: audit and risk; remuneration

James Robert (Rob) Nicolella
Non-executive director
CA(SA), PLD
Date of appointment: 1 September 2016

Rob joined HCI in 2011. Rob serves on the boards of subsidiary companies Business Systems Group Africa Proprietary Limited and group associate company Impact Oil and Gas Limited. Prior to joining HCI he was employed by Investec Bank Limited for 17 years, most notably in the capacity as Head of Corporate Banking, Western Cape, and subsequently Head of Private Banking, Western Cape. Rob served as Hospitality's CEO from 1 November 2018 to 31 May 2019.

3. Ordinary resolution number 3: Reappointment of the external auditor

"Resolved that PricewaterhouseCoopers Inc. be reappointed as the Company's independent external auditor and AG Taylor as the registered audit partner (to report on the financial year ending 31 March 2020)."

Reason for ordinary resolution number 3: Reappointment of external auditor

PricewaterhouseCoopers Inc. ('PwC') has indicated its willingness to continue in office and ordinary resolution number 3 proposes PwC's reappointment as the Company's independent external auditor.

In terms of section 90(1) of the Companies Act, each year at its AGM, the Company must appoint an auditor who complies with the requirements of section 90(2) of the Companies Act. The Company's audit and risk committee has considered PwC's independence in accordance with the Companies Act and is satisfied that PwC is independent as contemplated by the Companies Act and the applicable rules of the International Federation of Accountants ('IFAC'). The audit and risk committee can therefore recommend PwC's for appointment as the registered external auditor of the Company until the next AGM, subject to shareholder approval as required in terms of section 90(1) of the Companies Act.

Furthermore, the Company's audit and risk committee has, in terms of paragraphs 3.84(g)(iii) and 3.86 of the JSE Listings Requirements, considered and satisfied itself that PwC, the external auditors and individual designated audit partner auditor are accredited and appear on the JSE's list of accredited auditors in compliance with section 22 of the JSE Listings Requirements and are suitable for reappointment.

4. Ordinary resolution number 4: Election of the members of the audit and risk committee by separate resolutions

4.1 Ordinary resolution number 4.1: Election of Mr MH Ahmed as a member and the Chairman of the audit and risk committee

"Resolved that Mr MH Ahmed, being an independent non-executive director of the Company, be elected as a member and Chairman of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act)."

Notice of annual general meeting of shareholders continued

4.2 Ordinary resolution number 4.2: Election of Dr LM Molefi as a member of the audit and risk committee
"Resolved that Dr LM Molefi, being an independent, non-executive director of the Company, be elected as a member of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act), subject to her re-election as a director in terms of ordinary resolution number 2.6."

4.3 Ordinary resolution number 4.3: Election of Mr JG Ngcobo as a member of the audit and risk committee
"Resolved that Mr JG Ngcobo, being an independent non-executive director of the Company, be elected as a member of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act), subject to his re-election as a director in terms of ordinary resolution number 2.7."

Reason for ordinary resolution number 4: Election of the members of the audit and risk committee

In terms of the Companies Act and the King Report on Governance for South Africa ('King IV') the audit and risk committee is a committee of the Board elected by the shareholders at each AGM. In terms of the regulations to the Companies Act, at least one-third of the members of a company's audit and risk committee at any particular time must have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

The Company's board, having satisfied itself, among others, of the independence, qualifications, experience and expertise of the independent non-executive directors offering themselves for election as members of the Company's audit and risk committee, recommends their election to shareholders.

5. Advisory endorsement number 1: Non-binding advisory endorsement of the remuneration policy
To endorse, through a non-binding advisory vote, the Company's remuneration policy as set out on page 48 of the IAR.

Reason for endorsement of the remuneration policy

In terms of King IV recommendations, the Company's remuneration policy should be tabled for a non-binding advisory vote at the AGM. The essence of this vote is to enable the shareholders to express their views on the remuneration policy adopted by the Company.

Should 25% or more shareholders vote against the remuneration policy, the Company undertakes to invite such dissenting shareholders to engage with the Company in order to ascertain the reasons therefore and to address legitimate and reasonable objections and/or concerns.

6. Advisory endorsement number 2: Non-binding advisory endorsement of the remuneration implementation report
To endorse, through a non-binding advisory vote, the Company's remuneration implementation report with regard to the remuneration of directors as set out on page 49 of the IAR.

Reason for endorsement of the remuneration implementation report

In terms of King IV recommendations, the Company's remuneration implementation report should be tabled for a non-binding advisory vote at the AGM. The essence of this vote is to enable the shareholders to express their views on the Company's remuneration implementation report.

Should 25% or more shareholders vote against the remuneration implementation report, the Company undertakes to invite such dissenting shareholder to engage with the Company in order to ascertain the reasons therefore and to address legitimate and reasonable objections and/or concerns.

7. Special resolution number 1: Non-executive directors' remuneration for the period 1 April 2020 to 31 March 2021
At the Company's AGM held on 18 October 2018, shareholders approved a maximum increase of 12% to the remuneration of non-executive directors of the Company, for their services as directors, for the period 1 April 2019 to 31 March 2020, subject to Board approval. The Board, on recommendation by the remuneration committee agreed an average 6% inflationary increase for the period 1 April 2019 to 31 March 2020.

Approval is now sought for the Board to increase non-executive directors' fees for the period 1 April 2020 to 31 March 2021, within a specific mandate.

"Resolved that, in terms of the Company's memorandum of incorporation and sections 66(8) and 66(9) of the Companies Act, the payment of the remuneration of the non-executive directors of the Company, for their services as directors, for the period 1 April 2020 to 31 March 2021, unless amended by a special resolution of shareholders, be equal to the non-executive directors' remuneration for the period 1 April 2019 to 31 March 2020 (as set out below), escalated as approved by the Board of the Company, by up to a maximum of 8%."

Reason for special resolution number 1: Non-executive directors' remuneration for the period 1 April 2020 to 31 March 2021

The reason for and effect of special resolution number 1 is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company for the period 1 April 2020 to 31 March 2021 in accordance with sections 66(8) and 66(9) of the Companies Act. The proposed special resolution excludes value added tax ('VAT'), which will be added by directors in accordance with current VAT legislation, where applicable.

	Fees for the period 1 April 2019 to 31 March 2020		Fees for the period 1 April 2020 to 31 March 2021, assuming a maximum increase of 8%	
	Chairman Rand	**Member Rand**	Chairman Rand	Member Rand
Board (per annum)	**410 000**	**272 000**	442 800	293 760
Audit and risk committee (per annum)	**170 000**	**109 000**	183 600	117 720
Nomination committee*	**17 500**	**15 000**	18 900	16 200
Remuneration committee*	**17 500**	**15 000**	18 900	16 200
Social and ethics committee*	**29 000**	**23 000**	31 320	24 840

** Members earn a fee per meeting, for actual attendance. Two meetings per annum have been assumed in total fees for the period.*

9. Special resolution number 2: Financial assistance to subsidiaries and other related and inter-related entities in terms of sections 44 and 45 of the Companies Act

"Resolved that, to the extent required by the Companies Act, the Board may, subject to compliance with the requirements of the Company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the Company for any purpose or in connection with any matter including, but not limited to, the subscription of any option or any shares issued or to be issued by the Company or a related or inter-related company or entity, or for the purchase of any shares of the Company or a related or inter-related company or entity, including any direct or indirect financial assistance as contemplated in sections 44 and 45 of the Companies Act, on such terms and conditions as the Board may determine, such authority to endure until the next AGM of the Company to be held in 2019."

Reason for special resolution number 2: Authority to provide financial assistance to subsidiaries and other related and inter-related entities

The Company requires the ability to provide financial assistance to related and inter-related persons and entities, such as its subsidiaries, if necessary, in accordance with sections 44 and 45 of the Companies Act. Under sections 44 and 45 of the Companies Act, the company will, however, require a special resolution to be adopted before such financial assistance may be provided. In the circumstances and in order to, among others, ensure that the Company's related and inter-related companies and entities have access to financing and/or financial backing from the Company (as opposed to banks), it is necessary to obtain the approval of shareholders, as set out in special resolution number 2.

Notice of annual general meeting of shareholders continued

11. Special resolution number 3: General authority to acquire shares

"Resolved that the Company and/or a subsidiary of the Company is authorised by way of a general authority to repurchase or purchase, as the case may be, ordinary shares issued by the Company, from any person, upon such terms and conditions and in such number as the directors of the Company or the subsidiary may from time to time determine, subject to the applicable requirements of the Company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time on the following bases:

- each repurchase of shares must be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited);
- the repurchase by the Company of shares in the Company of any class under this authority shall not, in aggregate in any one financial year, exceed 20% of the Company's issued share capital as at the commencement date of such financial year;
- the number of ordinary shares purchased under this authority and held by a subsidiary or subsidiaries of the Company shall not exceed 10% in the aggregate of the number of issued shares in the Company at the relevant times;
- repurchases of ordinary shares may not be made at a price greater than 10% above the weighted average of the market value of ordinary shares for the five business days immediately preceding the date on which the repurchase is effected (the maximum price). The JSE will be consulted for a ruling if the Company's shares have not traded in such a five-business day period;
- repurchases of ordinary shares by the Company or its subsidiaries may not take place during a prohibited period as defined in the JSE Listings Requirements, unless the Company has in place a repurchase programme where the dates and quantities of ordinary shares to be traded are fixed (not subject to any variation) and full details of the programme have been disclosed in writing to the JSE prior to the commencement of the prohibited period;
- the Company shall release an announcement on SENS, as soon as it or its subsidiary has, on a cumulative basis purchased or repurchased ordinary shares, which constitute 3% of the number of ordinary shares in issue (at the time that this authority from shareholders for the repurchase was granted), and for each 3% in aggregate of such number of ordinary shares purchased or repurchased, as the case may be, thereafter;
- this general authority shall be valid only until the next AGM of the Company to be held in 2020, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
- at any point in time, the Company may only appoint one agent to effect any repurchases on the Company's behalf;
- no voting rights attached to ordinary shares acquired by the Company's subsidiaries may be exercised while the ordinary shares are held by them and they remain subsidiaries of the Company;
- a resolution has been passed by the Board of the Company confirming that it has authorised the general repurchase, that the Company and its subsidiaries will satisfy the solvency and liquidity test immediately after the repurchase of ordinary shares and that since the test was done there have been no material changes to the financial position of the Group; and
- any such general repurchase will be subject to exchange control regulations, if applicable."

Reason for special resolution number 3: General authority to acquire shares

The reason for special resolution number 3 is to grant the Board a general authority for the acquisition of the Company's shares by the Company, or by a subsidiary or subsidiaries of the Company.

Having considered the effect of acquisition of the Company's shares up to a maximum limit, the directors of the Company are of the opinion that, if such acquisitions were implemented:

- the Company and the Group are in a position to repay their debt in the ordinary course of business for a period of 12 months after the date of the notice of the meeting;
- the Company and the Group's assets will be in excess of the liabilities of the Company and the Group for a period of 12 months after the date of the notice of the meeting. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements of the Group for the year ended 31 March 2019 which comply with the Companies Act;
- the share capital and reserves of the Company and the Group will be adequate for the ordinary business purposes of the Company and the Group for a period of 12 months following the date of the notice of the meeting; and
- the available working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of the meeting.

Statement of the Board's intention

Although there is no immediate intention to effect a repurchase of shares of the Company, the Board believes that it should retain flexibility so that the directors may utilise the general authority to repurchase shares as and when suitable opportunities present themselves and which opportunities may require immediate action.

Other disclosure in accordance with paragraph 11.26 of the JSE Listings Requirements

The following additional information, some of which may appear elsewhere in the IAR, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

- Major shareholders – pages 97 and 98 of the IAR.
- Share capital of the Company – page 76 of the IAR.

Directors' responsibility statement

The directors, collectively and individually, accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolutions contain all information required by law and the JSE Listings Requirements.

Material change statement

As at Wednesday, 24 July 2019, being the last practicable date before the finalisation of this notice, there have been no material changes in the financial or trading position of the Company and its subsidiaries that have occurred between 31 March 2019 and 24 July 2019 other than the facts and developments as reported on in the IAR of the Company for the financial year ended 31 March 2019.

Electronic participation

Should any shareholder (or a representative or proxy for a shareholder) wish to participate in the AGM by way of electronic participation, that shareholder should make an application in writing (including details as to how the shareholder or its representative (including its proxy) can be contacted) to so participate, to the Company Secretary at rosao@hpf.co.za or to the registered address of the Company, to be received by the Company Secretary at least seven business days prior to the meeting, being Tuesday, 8 October 2019. Such application should include relevant contact details, including an email address, cellular number, and landline number, as well as full details of the shareholder's title to shares issued by the Company and proof of identity, in the form of certified copies of identity document and share certificates (in the case of certificated shares) and (in the case of dematerialised shares) written confirmation from the shareholder's Central Securities Depository Participant ('CSDP') confirming the shareholder's title to the dematerialised shares.

Proxies, authority for representatives to act and voting

Shareholders who are entitled to attend, participate in and vote at the AGM, are entitled to appoint a proxy (or more than one proxy in respect of different shareholders held by them) to attend, speak and vote in their stead. A proxy need not be a shareholder of the Company and shall be entitled to vote on a show of hands or a poll. For the convenience of registered shareholders of the Company, a form of proxy is enclosed herewith to be completed by them in their capacity as shareholders.

The enclosed form of proxy is only to be completed by those shareholders who are:

- holding shares in certificated form; or
- recorded on the Company's sub-register in dematerialised electronic form with 'own name' registration.

It is recommended that forms of proxy be completed and delivered to the transfer secretaries, Computershare Investor Services Proprietary Limited by no later than 09:00 on Tuesday, 15 October 2019. If shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration, and who are entitled to attend, participate in and vote at the AGM, do not deliver forms of proxy to the transfer secretary by the relevant time, such shareholders will nevertheless be entitled to lodge the form of proxy in respect of the AGM immediately prior to the exercising of the shareholders' rights at the AGM, in accordance with the instructions therein, with the Chairman of the AGM. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend, participate in and vote in person at the AGM should the shareholder decide to do so.

Notice of annual general meeting of shareholders continued

All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the AGM should contact their CSDP or broker:

- to provide them with the necessary letter of representation in order to attend the AGM; or
- to furnish the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

These shareholders must not use a form of proxy.

A company that is a shareholder wishing to attend and participate at the AGM should ensure that a resolution authorising a representative to so attend and participate at the AGM on its behalf is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the Company's transfer secretaries prior to the AGM.

Every shareholder present in person or represented by proxy and entitled to vote shall, in his/her/its capacity as shareholder, on a show of hands, have only one vote irrespective of the number of shares he/she/it holds or represents. On a poll, every shareholder present in person or represented by proxy and entitled to vote, shall, in his/her/its capacity as shareholder, be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of all the shares held by him/her/it bears to the aggregate amount of the nominal value of all the shares issued by the Company.

By order of the Board

LR van Onselen
For HPF Management Proprietary Limited
Company Secretary

24 July 2019

Form of proxy

Hospitality Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2005/014211/06)
JSE share code: HPB
ISIN: ZAE000214656
(Approved as a REIT by the JSE)
('Hospitality' or 'the Company')

This form of proxy is for use by shareholders registered as such who hold certificated shares in the Company and shareholders who hold 'own-name' dematerialised shares in the Company, to appoint a proxy or proxies for the AGM of the Company to be held at 09:00 on Thursday, 17 October 2019 at Palazzo Towers West, Montecasino Boulevard, Fourways or any adjournment or postponement thereof.

Shareholders who have dematerialised their shares in the Company and do not have 'own-name' registration, must inform their Central Securities Depository Participant ('CSDP') or broker if they wish to attend the AGM in person and must request their CSDP or broker to issue them with the necessary letters of representation authorising them to attend in person, alternatively, they must provide their CSDP or broker with their voting instructions should they not wish to attend the AGM in person. Such dematerialised shareholders must not return this form of proxy to the transfer secretaries.

It is recommended that forms of proxy be completed and delivered to the transfer secretaries, Computershare Investor Services Proprietary Limited, to be received by 09:00 on Tuesday, 15 October 2019. If shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration, and who are entitled to attend, participate in and vote at the AGM, do not deliver forms of proxy to the transfer secretary by the relevant time, such shareholders will nevertheless be entitled to lodge the form of proxy in respect of the AGM immediately prior to the exercising of the shareholders' rights at the AGM, in accordance with the instructions therein, with the Chairman of the AGM. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend, participate in and vote in person at the AGM should the shareholder decide to do so.

I/We (name/s in BLOCK LETTERS)

of (address)

being the registered holder/s of ordinary shares, hereby appoint:

1. or failing him/her,

2. or failing him/her,

3. the Chairman of the AGM, as my/our proxy to attend, speak and vote for me/us on my/our behalf or to abstain from voting at the AGM of the Company and at any adjournment thereof in respect of the ordinary share registered in my/our name/s, as follows:

Resolutions	For	Against	Abstain
Ordinary resolution number 1: Receive and adoption of annual financial statements and reports			
Ordinary resolution number 2.1: Re-election of Mrs MR de Lima as an executive director			
Ordinary resolution number 2.2: Re-election of Mrs L McDonald as a non-executive director			
Ordinary resolution number 2.3: Re-election of Mr JR Nicolella as a non-executive director			
Ordinary resolution number 2.4: Election of Mr R Erasmus as an executive director			
Ordinary resolution number 2.5: Election of Mr SC Gina as an independent non-executive director			
Ordinary resolution number 2.6: Election of Dr LM Molefi as an independent non-executive director			
Ordinary resolution number 2.7: Election of Mr JG Ngcobo as an independent non-executive director			
Ordinary resolution number 2.8: Election of Mr MN von Aulock as a non-executive director			
Ordinary resolution number 3: Reappointment of the external auditor			
Ordinary resolution number 4.1: Election of Mr MH Ahmed as a member and Chairman of the audit and risk committee			
Ordinary resolution number 4.2: Election of Dr LM Molefi as a member of the audit and risk committee			
Ordinary resolution number 4.3: Election of Mr JG Ngcobo as a member of the audit and risk committee			
Advisory endorsement 1: Non-binding advisory endorsement of the remuneration policy			
Advisory endorsement 2: Non-binding advisory endorsement of the remuneration implementation report			
Special resolution number 1: Approval of non-executive directors' remuneration			
Special resolution number 2: Financial assistance to subsidiaries and other related and inter-related entities in terms of sections 44 and 45 of the Companies Act			
Special resolution number 3: General authority to acquire shares			

Signed at on 2019

Signature(s)

Assisted by (where applicable)

Name Capacity

Signature

Please read notes overleaf.

Notes to the form of proxy

and summary of rights under section 58 of the Companies Act, 2008

1. Only shareholders who are registered in the register of the Company under their own name may complete a form of proxy or attend the AGM. This includes shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own-name' registration. A shareholder entitled to attend and vote at the AGM is entitled to appoint one individual as a proxy to attend, speak and, on a poll, to vote in his/her place at the AGM. A proxy need not be a shareholder of the Company. Such shareholder may insert the name of a proxy of the shareholder's choice in the space provided, with or without deleting 'the Chairman of the AGM', provided that any such deletion must be signed in full by the shareholder. The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow. Should a proxy not be specified, this will be exercised by the Chairman of the AGM.
2. The date must be filled in on this form of proxy when it is signed.
3. The completion and lodging of this form will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed, should such shareholder wish to do so.
4. The appointment of a proxy or proxies:
   - 4.1 is suspended at any time to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
   - 4.2 is revocable in which case the shareholder may revoke the proxy appointment by:
     - 4.2.1 cancelling it in writing or making a later inconsistent appointment of a proxy; and
     - 4.2.2 delivering a copy of the revocation instrument to the proxy and to the Company.
5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date:
   - 5.1 stated in the revocation instrument, if any; or
   - 5.2 upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Companies Act.
6. Should the instrument appointing a proxy or proxies have been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company's memorandum of incorporation to be delivered by such company to the shareholder must be delivered by such company to:
   - 6.1 the shareholder; or
   - 6.2 the proxy or proxies if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the Company for doing so.
7. The proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used unless revoked as contemplated in section 58(5) of the Companies Act.
8. Any alteration or correction made to this form of proxy must be initialled by the signatory(ies). The completion of any blank space(s) need not be signed or initialled.
9. A power of attorney or other documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form unless previously recorded by the transfer secretaries of the Company or waived by the Chairman of the AGM.
10. A minor must be assisted by his/her parent/guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
11. A company holding shares in the Company that wishes to attend and participate in the AGM should ensure that a resolution authorising a representative to act is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the Company's transfer secretaries prior to the AGM.
12. Where there are joint holders of shares, only one of such persons need sign the form of proxy. If more than one of such joint shareholder vote, whether in person or by proxy, only the vote of one of the said persons whose name appears first in the securities register in respect of such shares or his/her proxy, as the case may be, shall be counted.
13. Every shareholder present in person or represented by proxy and entitled to vote shall, in his/her/its capacity as shareholder, on a show of hands, have only one vote irrespective of the number of shares he/she/it holds or represents. On a poll every shareholder present in person or represented by a proxy and entitled to vote, shall, in his/her/its capacity as shareholder, be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him/her bears to the aggregate amount of the nominal value of all the shares of the relevant class issued by the Company.
14. The Chairman of the AGM may reject or accept any proxy which is completed and/or received, other than in accordance with these notes, provided that he/she shall not accept a proxy unless he/she is satisfied as to the matter in which a shareholder wishes to vote.
15. A proxy may not delegate his/her authority to act on behalf of the shareholder, to another person.
16. You are not obliged either to cast all your votes or to cast all your votes in the same way. A shareholder's instruction to the proxy must be indicated either by:
    - 16.1 the insertion of an 'X' in the appropriate box next to the resolution (ie in favour of and/or against and/or by way of abstention), in which event the proxy will cast all your votes in the manner so specified; or
    - 16.2 setting out the relevant number of shares to be voted on behalf of that shareholder in the appropriate box provided next to the resolution, provided that, if for any resolution the aggregate number of votes to be cast would exceed the total number of shares held, you will be deemed to have given no specific instruction as to how you wish your proxy to vote in respect of that resolution.

    Failure to comply with the above will be deemed to authorise the Chairman of the AGM, if the Chairman is the authorised proxy, to vote in favour of the resolutions at the AGM or other proxy to vote or to abstain from voting at the AGM as he/she deems fit, in respect of the shares concerned. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or the proxy, but the total of votes cast in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
17. Where a proxy is appointed, the enclosed proxy form must be completed, signed and lodged, together with proof of the authority of the person signing the form in a representative capacity, with Computershare Investor Services Proprietary Limited, the transfer secretaries of the Company. It is recommended that such form of proxy be lodged with the transfer secretaries, by 09:00 on Tuesday, 15 October 2019. If shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration, and who are entitled to attend, participate in and vote at the AGM, do not deliver forms of proxy to the transfer secretary by the relevant time, such shareholders will nevertheless be entitled to lodge the form of proxy in respect of the AGM immediately prior to the exercising of the shareholders' rights at the AGM, in accordance with the instructions therein, with the Chairman of the AGM. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend, participate in and vote in person at the AGM should the shareholder decide to do so.

Glossary

AGM	Annual General Meeting
ARR	Average room rate, sometimes referred to as average daily rate (ADR)
Ash Brook	Ash Brook Investment 72 Proprietary Limited
the Board	The Board of directors of Hospitality Property Fund Limited
B-BBEE	Broad-based black economic empowerment as per the B-BBEE Act
B-BBEE Act	The South African Broad-Based Black Economic Empowerment Act, No 53 of 2003, as amended
Companies Act	South African Companies Act, No 71 of 2008, as amended
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGUs	cash-generating units
the Company	Hospitality Property Fund Limited
CPI	Consumer price index
CSDP	Central Securities Depository Participant
CTC	Cost to company
Cullinan	The Cullinan Hotel Proprietary Limited (Registration number 1988/004685/07), a private company incorporated and registered in accordance with the laws of South Africa and a wholly owned subsidiary of Hospitality
DMTN	Domestic medium-term note programme
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rent
Fezisource	Fezisource Proprietary Limited, registration number 2015/305572/07, a wholly owned subsidiary of Hospitality
FFO	funds from operators
FF&E	Furniture, fittings and equipment
F&B	Food and beverage
FRSC	Financial Reporting Standards Council
F&V	Fixed and variable lease agreement
the Group	Hospitality Property Fund Limited and its subsidiaries, associates and joint ventures
HCI	Hosken Consolidated Investments Limited
HEPS	headline earnings per share
Hospitality or the company or the Fund	Hospitality Property Fund Limited
HPF Management	HPF Management Proprietary Limited, registration number 2009/021472/07, a wholly owned subsidiary of Hospitality
HPF Properties	HPF Properties Proprietary Limited, registration number 2005/020743/07, a wholly Owned subsidiary of Hospitality
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICR	interest cover ratio
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IAR	Integrated annual report
IRBA	Independent Regulatory Board for Auditors
ISA	SA International Standards on Auditing
IT	Information Technology

Glossary continued

JSE	JSE Limited
King IV	The King Code of Governance Principles for South Africa 2009
LID	Lead independent director
LTIs	Long-term incentives
LTV	Loan to value
Merway	Merway Fifth Investments Proprietary Limited (Registration number 1991/006478/07), a private company incorporated and registered in accordance with the laws of South Africa and a wholly owned subsidiary of Hospitality
MOI	Memorandum of incorporation
NAREIT	National Association of Real Estate Investment Trusts
PoPI	Protection of Personal Information Act, No 4 of 2013
p.p.	percentage points
PwC	PricewaterhouseCoopers Inc. appointed as the external auditor of Hospitality on 22 November 2016
REIT	Real Estate Investment Trust
RevPar	Revenue per available room
SAT	South African Tourism
SATSA	South African Tourism Services Association
SENS	Stock Exchange News Service of the JSE Limited
SIC	standing interpretations committee
SPV	Special-purpose vehicle
SSH	Southern Sun Hotels Proprietary Limited, registration number 2002/006356/07, which was a wholly owned subsidiary of Tsogo Sun Hotels, Gaming and Entertainment Proprietary Limited, registration number 2002/006556/07 at 31 March 2019. Southern Sun Hotels Proprietary Limited changes its name to Tsogo Sun Hotels Limited and converted to a public company on 15 May 2019. Tsogo Sun Hotels Limited listed on the JSE on 12 June 2019
STI	Short-term incentives
STR	STR Global South African Hotel Review
STT	Securities transfer tax
the appraiser	a qualified real estate appraiser
The Board	The Board of directors of Hospitality Property Fund Limited
THL	Tsogo Sun Hotels Limited (formerly Southern Sun Hotels Proprietary Limited) incorporated as a private company and converted to a public company on 15 May 2019 in accordance with the laws of South Africa (registration number 2002/006356/07). Listed on the JSE on 12 June 2019
Transaction	The acquisition by Hospitality of the entire issued share capital of Merway and Cullinan from SSH
The trust	Hospitality employee incentive trust
Tsogo group	Collectively, Tsogo and its subsidiaries
Tsogo Sun	Tsogo Sun Holdings Limited
VAT	Value added tax
Vexicure	Vexicure Proprietary Limited (registration number 2009/017870/07), a private company incorporated and registered in accordance with the laws of South Africa
WESGRO	Cape Town and Western Cape tourism, trade and investment

Corporate information

COMPANY SECRETARY
LR van Onselen

REGISTERED OFFICE
Palazzo Towers West, Montecasino Boulevard, Fourways
Johannesburg, 2055
(Private Bag X200, Bryanston, Gauteng, 2021)

COMMERCIAL BANKERS
Nedbank Limited
(Registration number 1966/010630/06)
1st Floor, Corporate Park
Nedcor Sandton, 135 Rivonia Road
Sandown, Johannesburg, 2196
(PO Box 1144, Johannesburg, 2000)

Standard Bank of South Africa Limited
(Registration number 1962/000738/06)
3rd Floor, East Wing, 30 Baker Street, Rosebank
Johannesburg, 2196

TRUSTEES TO NOTE HOLDERS
TMF Corporate Services (South Africa) Proprietary Limited
(Registration number 2006/013631/07)
3rd Floor, 200 on Main
Cnr Main and Bowwood Roads
Claremont, Cape Town, 7708
(Postnet Suite 294, Private Bag X1005, Claremont, 7735)

INDEPENDENT AUDITORS
PricewaterhouseCoopers Inc.
(Registration number 1998/012055/21)
4 Lisbon Lane, Waterfall City, Jukskei View, Midrand, 2090
(Private Bag X36, Sunninghill, 2157)

SPONSOR AND CORPORATE ADVISER
Java Capital
6A Sandown Valley Crescent
Sandton, Johannesburg, 2196
(PO Box 522606, Saxonwold, 2132)

TRANSFER SECRETARIES
Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Rosebank Towers
15 Biermann Avenue
Rosebank, Johannesburg, 2196
(PO Box 61051, Marshalltown, 2107)

ATTORNEYS
Edward Nathan Sonnenbergs Inc.
(Registration number 2006/018200/21)
150 West Street
Sandown, Johannesburg, 2196
(PO Box 783347, Sandton, 2146)

Shapiro-Aarons Inc.
(Registration number 1997/002933/21)
1 Unity Street
Fellside, Johannesburg, 2192
(PO Box 1107, Johannesburg, 2000)

Nortons Inc.
(Registration number 2009/006902/21)
135 Daisy Street
Sandton, Johannesburg, 2196
(PO Box 41162, Craighall, 2024)

www.hpf.co.za
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Palazzo Towers West, Montecasino Boulevard, Fourways
Gauteng, South Africa, 2055